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S. Hrg. 99-611

Senate Hearings

Before the Committee on Appropriations

COMPLETED
270
M183 ORIGINAL

Budget Overview

Fiscal Year 1987

99*th* CONGRESS, SECOND SESSION

SPECIAL HEARINGS

Budget of the U.S. Government

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S. HRG. 99-611

BUDGET OVERVIEW

HEARINGS

BEFORE THE

COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

Printed for the use of the Committee on Appropriations

SPECIAL HEARINGS

Budget of the U.S. Government

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BUDGET OVERVIEW FOR FISCAL YEAR 1987

WEDNESDAY, FEBRUARY 19, 1986

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The committee met at 1:42 p.m., in room SD–192, Dirksen Senate Office Building, Hon. Mark O. Hatfield (chairman) presiding.

Present: Senators Hatfield, Weicker, McClure, Garn Andrews, Abdnor, Kasten, D'Amato, Mattingly, Rudman, Specter, Domenici, Stennis, Chiles, Johnston, Burdick, Leahy, DeConcini, Bumpers, Lautenberg and Harkin.

OFFICE OF MANAGEMENT AND BUDGET

STATEMENT OF HON. JAMES C. MILLER, III, DIRECTOR OFFICE OF MANAGEMENT AND BUDGET

OPENING STATEMENT OF CHAIRMAN HATFIELD

Chairman HATFIELD. The meeting will please come to order. This afternoon, we will begin the first of two overview hearings of the President's budget request for fiscal year 1987. This afternoon, we will hear from the Honorable William Miller, the Director of the Office of Management and Budget. One week from today, we will hear from Rudy Penner, the Director of the Congressional Budget Office, and he will present his annual analysis of the President's budget.

I believe this is your first appearance before this Committee, Mr. Miller, and we welcome you.

Mr. MILLER. Thank you.

Chairman HATFIELD. We expect to see a lot of you, both in the formal hearings and in the informal hearings in the year ahead. We look forward to what is known in diplomatic circles as a "frank and open exchange of views."

Senator Stennis, I will yield to you for any opening remarks you may wish to make before proceeding with some opening comments of my own.

PREPARED STATEMENT OF SENATOR STENNIS

Senator STENNIS. Mr. Chairman, I have a brief statement here that I would like to ask to be put in the record and pass with that for the time being, because we came here to hear Mr. Miller.

That is all I have in mind right now. So may I put this in the record, this two pages?

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Chairman HATFIELD. Certainly.

Senator STENNIS. That is it for the time being.

Chairman HATFIELD. Without objection, the ranking member's statement will be placed in the record at this point.

[The statement follows:]

STATEMENT OF SENATOR JOHN C. STENNIS

Mr. Chairman, I will be brief. I, too, join with Chairman Hatfield in welcoming Mr. Miller to his first appearance before our committee. We have found in the past that testimony received at these so-called economic overview hearings is helpful and we look forward to hearing from Mr. Miller this afternoon.

Last year, Congress passed a law—the Gramm-Rudman-Hollings Act—which sets deficit targets and requires cuts to be made automatically if these targets aren't met. As we all know, there was a recent lower court decision which throws a shadow over this act and won't be settled until the Supreme Court decides. Because of this action, the responsibility has been placed back in the laps of the Congress and the President to take actions on both revenues and spending to control and reduce the deficit.

Now, I am working tooth and nail on this thing for my part, trying to help bring about a balance, and I believe it can be done. It must be done. We must bring the deficit down, but all of the reductions cannot come from our domestic spending. The Defense budget must also share the burden and it may take raising our taxes. But as I have said all along, and I still say—we cannot adjust all of these matters—we cannot lower taxes as we did and at the same time expand our military program as we did, while at the same time not curtail more or reduce more of the other big items in the budget.

We need to take the bull by the horns, but we need to be cautious and certain in making judgments and adjustments. I feel we are coming out on top in this matter, and I hope we have learned a great lesson.

NON-DEFENSE SPENDING REDUCTIONS

Chairman HATFIELD. Mr. Miller, the President's budget request proposes non-defense spending reductions from the OMB current services baseline of $31.9 billion in outlays and increased receipts of $6.3 billion, for a total deficit reduction of $38.2 billion. Using your economic assumptions, which are not that different from those used by CBO in its baseline report released yesterday, the actions the President proposes will result in a fiscal year 1987 deficit of $143.6 billion within the Gramm-Rudman-Hollings target of $144 billion. Meanwhile, you propose an increase for defense spending of 12 percent in nominal terms and 8 percent in real growth over fiscal year 1986 enacted levels.

As I believe you know, Mr. Director, I am willing to support some of your spending reduction proposals. I did so in last year's deliberations, and your laundry list is very similar this year.

It may be that the time has come to eliminate EDA, ICC, AFC, urban development action grants, general revenue sharing and other programs.

CONGRESSIONAL BUDGET CUTS IN FISCAL YEAR 1986

And it should be emphasized that this Committee is no stranger to spending cuts. In fact, in fiscal year 1986, the only savings from congressional action came from reductions made by this committee and our counterparts in the House of Representatives. We achieved $10.5 billion in outlay reductions last year; $3.6 billion in defense outlays and $6.9 in nondefense.

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But I can assure you that I, as an individual, will not support these spending reductions or others to reduce health, education and nutrition programs if the savings achieved are used to further fuel the defense budget. What you propose, it seems to me, is that we beat our plowshares into swords, and I do not intend to endorse that particular policy.

But I am willing to endorse, as I believe many of us are, additional revenues, and I hope you and the President will eventually show more flexibility on that point.

HEARING PROCEDURE

With that, Mr. Miller, I invite you to proceed with your statement. We have your prepared testimony. It will be printed in the record in full, and you may proceed in any way you wish to either highlight or summarize your statement.

Then, for the committee, I would indicate that I believe during the first round of questions we follow traditionally the 10-minute rule, which gives a Senator an opportunity to ask more than one question, as against the 5 minute rule, and so we will proceed on the basis following your statement with questions from the committee.

EXPANSION OF ECONOMY

Mr. MILLER. Thank you, Mr. Chairman and members of the committee. I will try to briefly summarize my statement in order that I might present some materials with the use of charts. Let me say that we are in a very fine time with respect to the economy. We have had 35 months or so of continuous expansion. I think it is because of the groundwork laid early on in the administration of tax cuts and budget restraint, regulatory relief, and a stable monetary policy.

Conditions are conducive, I think, to expanding the economy further, something I think that should be a very high priority for all of us, but as you all know, the deficit does pose a possible threat. Of course, I applaud, as did the President, the action taken by the Congress before adjournment last December in passing Gramm-Rudman-Hollings, which makes a commitment toward a reduction in the deficit over a period of 5 years.

FORMAT OF PRESIDENT'S BUDGET

The budget that the President has submitted meets the Gramm-Rudman-Hollings targets of $144 billion dollars in fiscal year 1987 and declining on down to a balanced budget by 1991. And it accomplishes that without raising taxes; without reducing defense spending; in fact, allowing for a 3 percent increase in defense above the 1986 Congressional Budget Resolution figures agreed to by the President last August; and without, I believe, cutting into vital programs for the poor and the elderly.

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OVERALL DEFICIT ESTIMATE

As you indicated, our estimate of the overall deficit is approximately $182 billion on a current services basis. To get down to $144, we have to realize something like $38 billion dollars in savings. Of those savings, $6.3 billion is in the form of increased revenue. Over $5 billion is in the form of assets sales, privatization and increased user charges. So you have got about $12 billion in additional revenue as part of those savings.

The rest is as follows: there is about $1.5 billion to be saved from interest expense; there is $3 billion savings in the defense budget from, again, that 3 percent real growth from the CBR baseline; and finally, there is $22.4 billion of programmatic savings in the domestic area out of a base of about $418 billion.

FUNDING FOR HIGH PRIORITY ITEMS

Now, despite the very tight fiscal environment, we have additional funds in there for some high priority items. Among those that would be increased from fiscal year 1986 levels would be, of course, national defense, funding of AID, and international security matters.

Questions have been raised about our estimates in certain areas compared with the Congressional Budget Office. Mr. Penner will be here, as you indicated, next week, and you undoubtedly will have an opportunity to question him about that.

DEFENSE OUTLAYS

Some question has been raised about our defense numbers, that is, outlay numbers for 1987. They simply reflect our best judgment of what outlays are likely to be. Let me just say it is currently very difficult to estimate outlays precisely for an account that spends out so slowly—like the Department of Defense—that spends out budget authority over a period of several years. The same thing is true with housing, by the way.

We are forecasting what the outlay numbers will be. We believe our forecasts are appropriate and are as close to the mark as we can make them.

In fact, our outlay estimates, if you adjust for the assumptions that have transpired since the CBR, our outlay figures are some $5 billion higher than the adjusted CBR figure, which I think gives evidence that we are not purposely underestimating defense outlays.

Moreover, bear in mind for at least the past 3 years, or at least 1983, 1984 and 1985, OMB overestimated outlays and at that time was accused of trying to hide or lowball the amount of unobligated balances that were in the Defense Department budget.

OMB NUMBERS COMPARED WITH CBO

So again, we are trying to give you the best estimate that we can. I think, in comparison with CBO, it is rather amazing, frankly, that in estimating the deficit for purposes of Gramm-Rudman-Hollings, we came

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within $1 billion of the estimate. I think CBO estimated $220.9, and we estimated $220.1 or something like that.

If you look at the figures of the CBO report that I received yesterday, if you look at their document for the current services deficit, with the exception of one year, the numbers are very, very close. For 1987, they estimated a current services deficit of $181. We estimated $182.

In the last year of 1991, they estimate something like $104, as do we. They have a slightly higher number, some $14 billion higher, I think, for fiscal 1988, than we do'

At this point, Mr. Chairman, I would like to make a presentation using some charts, with your permission.

Chairman HATFIELD. Proceed.

HIGHLIGHTS OF FY 1987
PRESIDENT'S BUDGET

- Reduces deficit by $38 billion in FY 1987.
- Complies with G-R-H deficit target through FY 1991.
- Avoids increasing the Nation's tax burden.
- Reflects bipartisan consensus to protect Social Security.
- Funds National Defense at compromise levels.
- Protects low income support benefits for needy.

CHART 1

BUDGET HIGHLIGHTS

Mr. MILLER. Mr. Chairman and members of the Committee, as I indicated, the President's budget does meet the Gramm-Rudman-Hollings targets for fiscal 1987 and the out year, and does this without raising taxes, without cutting defense below the 3 percent real growth over the CBR, as agreed to last August, and without hitting the poor and the elderly.

Chairman HATFIELD. Excuse me just a moment, Mr. Miller. This is the publication which the Director is now refering to, if you want to follow it.

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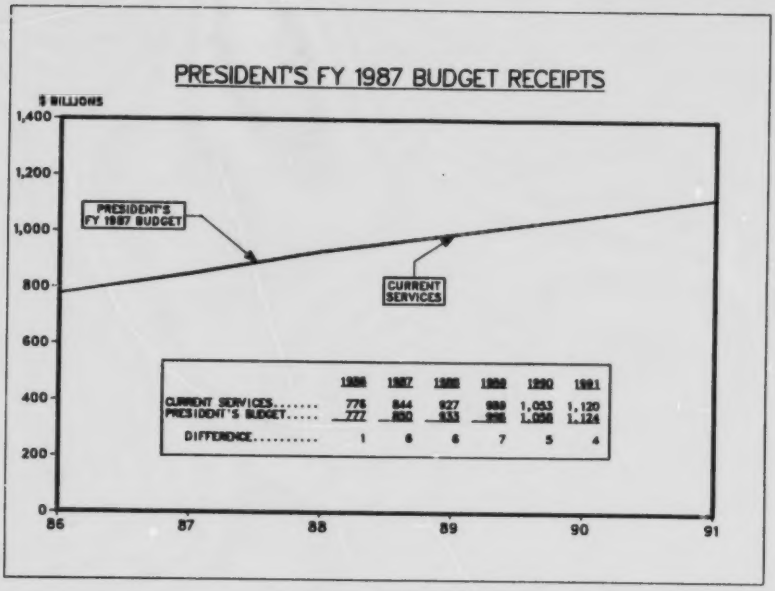

CHART 2

CURRENT SERVICES REVENUE RECEIPTS

Mr. MILLER. Thank you, Mr. Chairman. The diagram above indicates the current services revenue receipts by the Treasury Department for the years 1986 through 1990. As you can see, the current services revenue is a little bit below the President's revenue line. In fact, because of some changes, the President's budget calls for more revenue than current services, primarily the increase in the extension of the extra 8 cent per pack tax on cigarettes, having civil service employees contribute 2 percent more to their retirement, having IRS collect more taxes owed the government and that sort of thing, and it continues throughout.

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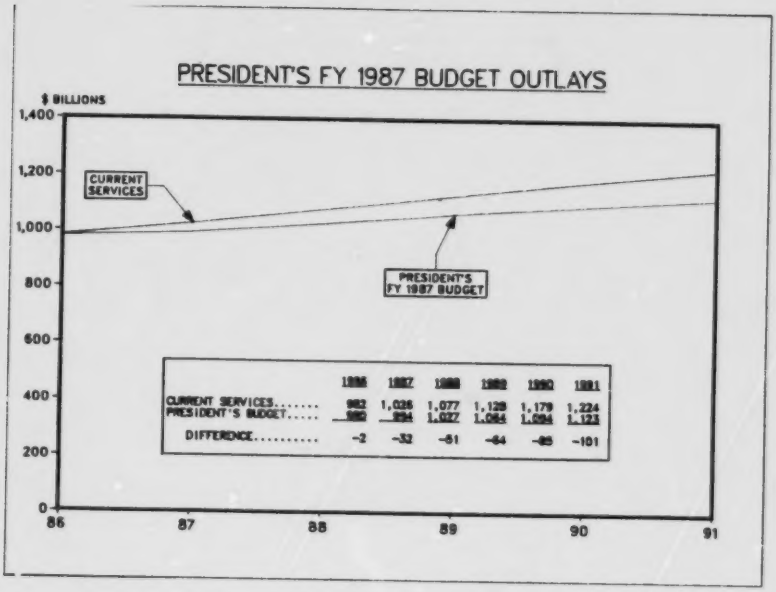

CHART 3

TIME PATH OF OUTLAYS

The chart above shows the time path—time series of outlays. As you can see, the outlays under the President's budget continue to rise throughout that period 1986 through 1991, but they rise at a slightly slower rate, so there are savings from the current services estimate.

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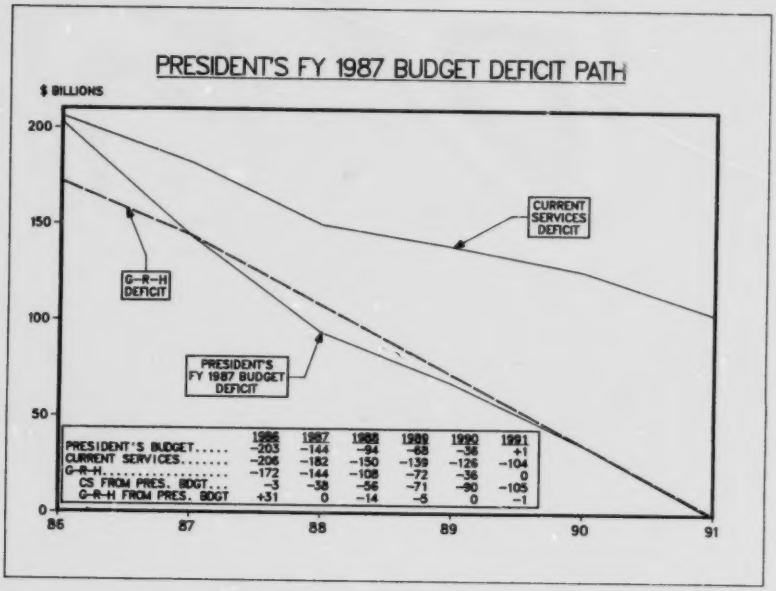

CHART 4

DEFICIT PATH

The chart above indicates three things. It indicates, first, what our estimate of current services deficit looks like, as you will find next week, or if you have looked at the books provided to you by CBO. This line right here is very similar to CBO's line. It doesn't indicate quite the dip in 1988 that this one shows, but the beginning points and ending points are virtually the same.

The dashed line here is the Gramm-Rudman-Hollings deficit targets coming down from $172 to $144 for 1987, and then successively $36 billion less each year down to a zero deficit target by fiscal year 1991.

The lower line of the shaded area is the President's budget line, which comes down and hits the Gramm-Rudman target for fiscal 1987, and is below the Gramm-Rudman-Hollings target throughout the period of time.

Something I think very important about the President's budget in this regard: It has been said by a number of people that the President's proposed budget has a number of things that are very hard to take, very hard to adopt, hard choices to be made. That is true.

Some people then say, beyond that, how can we possibly make these hard choices this year and be expected next year, in fiscal 1988, to make the same kind of additional hard choices, and then in 1989 make more hard choices? The point I want to make is if our assumptions are

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true about the nature of the economy and the current services deficit, if Congress adopts the President's budget this year, then the current services expenditure will be below the deficit targets, the Gramm-Rudman-Hollings deficit targets throughout, the period to 1991.

So in a sense, if you are talking about something unpleasant, unpleasant choices or whatever bad medicine, one only has to take it once, and it gets the targets, the path of spending, down below the current services, down below the Gramm-Rudman-Hollings target line.

Can I see the next one?

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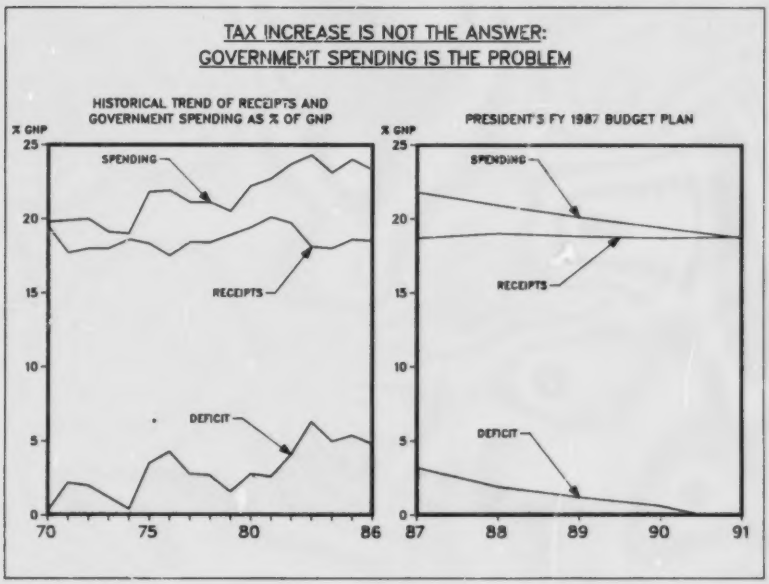
FY 1987 BUDGET TOTALS
(in billions of dollars)

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
President's Budget						
Receipts	777.1	850.4	933.2	996.1	1058.1	1124.0
Outlays	979.9	994.0	1026.8	1063.6	1093.8	1122.7
Deficit	−202.8	−143.6	−93.6	−67.5	−35.8	+1.3
Gramm-Rudman-Hollings Targets	−171.9	−144.0	−108.0	−72.0	−36.0	0.0
Deficit Reduction From Current Services Baseline	2.8	38.2	56.4	71.4	90.5	105.2
Increased Receipts	0.7	6.3	5.9	6.9	5.0	3.8
Outlay Reductions	2.1	31.9	50.5	64.5	85.5	101.4



CHARTS 5 AND 6

RECEIPTS

Mr. MILLER. I don't believe, Mr. Chairman and members of the committee, that taxes are the answer. Of course, there is nothing immutable about a particular percentage of gross national product, but as you can see here, receipts have been running around 18 or 19 percent of gross national product, going up and down somewhat. Spending on the whole, however, has risen over the period 1970 to 1986, giving rise derivatively to a deficit that rises.

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Under the President's proposed budget, receipts will remain a rather constant 18 or 19 percent of gross national product, spending will fall, and the derivative deficit will fall to zero by 1991.

Social Security hikes are not envisioned in this budget. Under the President's budget, Social Security funding will continue to rise throughout the period of 1987 through 1991. Social Security spending will remain approximately 4 or 5 percent of gross national product.

A cut in defense is not the answer, I think, Mr. Chairman and members of the committee, and let me indicate, in some dimensions, why.

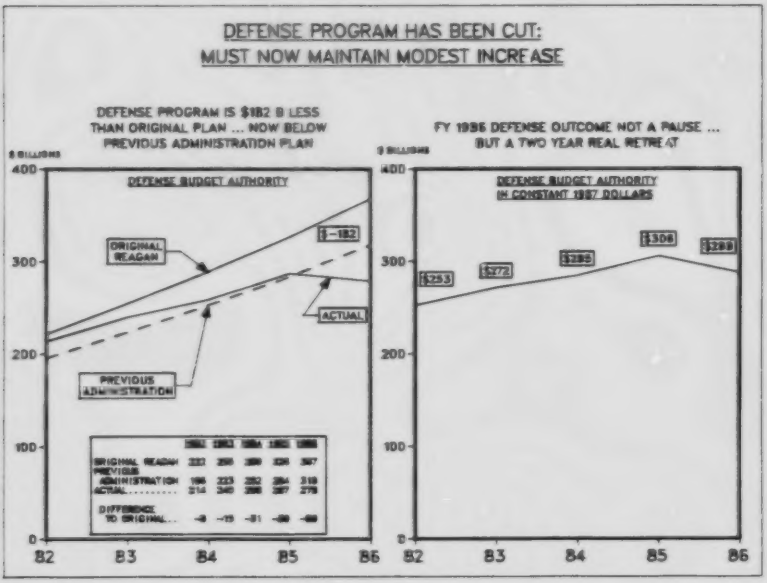

CHART 7

DEFENSE BUDGET

First, the President's original nominal request for budget authority for defense was this top line right here. The dashed line is the line representing the nominal request by President Carter before he left office. The lower line of the shaded area is what actually happened to defense budget authority appropriated over the period 1982 through 1986, and as you can see, for 1986, it has fallen in nominal budget authority terms below the request of President Carter and, in fact, as compared to the original Reagan request, it is some $182 billion below that level.

If you look in real terms, budget authority in real terms, it has risen. It rose continuously over the period of 1982 through 1985 and peaked and went back down last year. Taking into account the sequestered

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budget authority defense budget authority is at about the level in real terms that it was 2 years earlier.

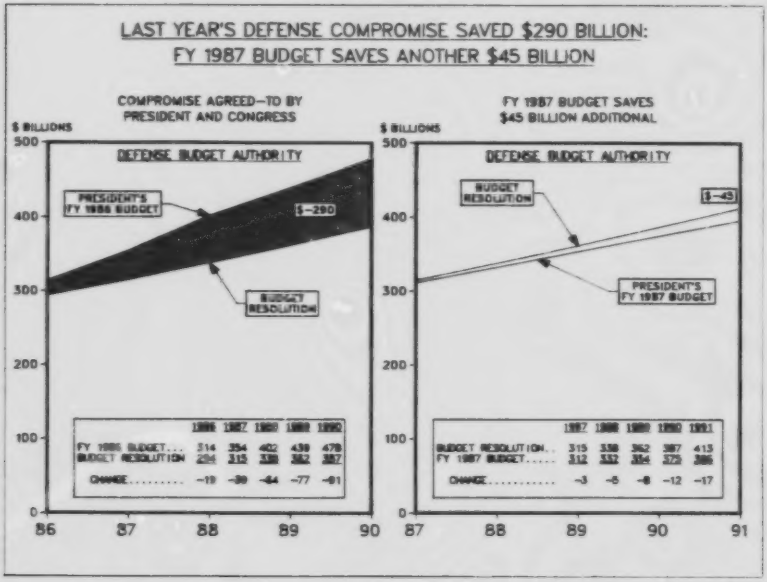

CHART 8

COMPROMISE ON DEFENSE BUDGET

If you compare what the President's budget request was just a year ago for the fiscal 1986 budget, it was this line right here. Last August, the President agreed in the Congressional Budget Resolution compromise to a budget line that was this lower line here. The difference between those two lines over the period of 1986 through 1990 is $290 billion.

So the President believes that in terms of responding to calls for compromising on defense, that he compromised on defense last August. He made his compromise. He gave up, over a 5-year period of time, $290 billion in budget authority for defense.

But not allowing that to be all that he has done, he has gone beyond in this year's budget. The top line on this side is the budget resolution line, and as you can see, the President's 1987 budget asks for even less than the budget resolution line, an amount that would save an additional $45 billion in budget authority over the period 1987 through 1991.

The reason was that we were able to assure the President of giving a 3-percent annual increase in defense in real terms, by finding additional savings, including the adjustment in the special inflation adjuster for weapon systems.

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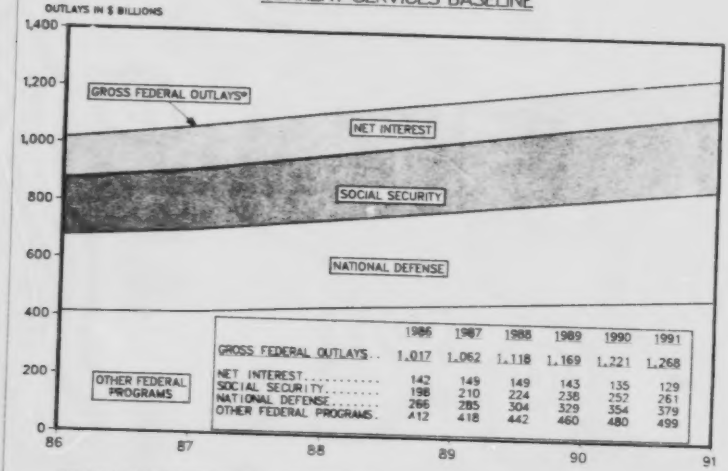
CHART 9

MAJOR BUDGET COMPONENTS: CURRENT SERVICES BASELINE

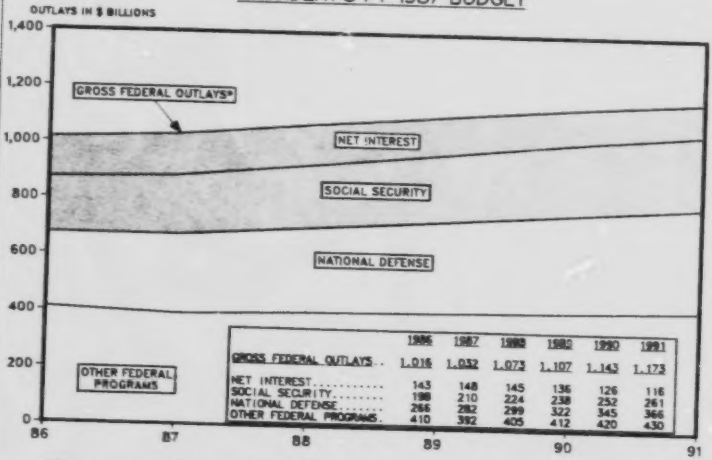


	1986	1987	1988	1989	1990	1991
GROSS FEDERAL OUTLAYS..	1,017	1,062	1,118	1,169	1,221	1,268
NET INTEREST.....	142	149	149	143	135	129
SOCIAL SECURITY.....	198	210	224	238	252	261
NATIONAL DEFENSE.....	266	285	304	329	354	379
OTHER FEDERAL PROGRAMS.	412	418	442	460	480	499

* EXCLUSIVE OF UNDISTRIBUTED OFFSETTING RECEIPTS

CHART 10

MAJOR BUDGET COMPONENTS: PRESIDENT'S FY 1987 BUDGET



	1986	1987	1988	1989	1990	1991
GROSS FEDERAL OUTLAYS..	1,016	1,032	1,073	1,107	1,143	1,173
NET INTEREST.....	143	148	145	136	126	116
SOCIAL SECURITY.....	198	210	224	238	252	261
NATIONAL DEFENSE.....	266	282	299	322	345	366
OTHER FEDERAL PROGRAMS.	410	392	405	412	420	430

* EXCLUSIVE OF UNDISTRIBUTED OFFSETTING RECEIPTS

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OUTLAYS BY MAJOR COMPONENT PART

Now I would like to dispiay the total outlays of the budget by major component part. This is the current services baseline; net interest; social security; national defense and everything else, and on the other side is the President's budget, and just visually observing, there is very little difference between the two.

This one goes up throughout the whole period, and this one is rather level at the beginning and then goes up later.

Since I told you we can't do very much about net interest, although I will mention what we can do in a little bit, and Social Security is off limits, and we are saving some from defense, the wedge I just described, our focus right now will be on all other Federal programs, these at the bottom.

Now I would like to look at those in detail.

Senator JOHNSTON. Excuse me. Are those actual expenditures on national defense last year?

Mr. MILLER. Those were budget authority, not outlays.

Senator CHILES. That is your baseline, not the CBO baseline?

Mr. MILLER. Let's put this back up and see. Let's identify specifically.

Senator CHILES. I think you just covered up that chart. I think it is the one under. I think you just covered it up.

Mr. MILLER. I'm sorry. You are not accusing me of a coverup, are you? [Laughter.]

Senator CHILES. No, sir.

Mr. MILLER. I am trying to show that I am showing everything. Which were you looking for?

Senator CHILES. You were mentioning the fact in your statement, I think, that there was virtually no change between the current services baseline and the major component of the President's budget.

We are trying to find out the status of the baseline Is that the baseline based on what Congress appropriated last year?

Mr. MILLER. No.

Senator CHILES. Or is that the baseline on what the President's wish list was?

Mr. MILLER. The baseline is what was contained in the congressional budget resolution, but not for defense. Defense, I understand, in the past, has been treated very specially and separately in determining baselines, anyway. I have said publicly and repeatedly before the budget came out that we were looking at a 3-percent real growth over the CBR level of 1986 consistent with the budget resolution of last August.

Senator CHILES. How about your other baseline? Is that based on what the resolution had, or is that based on what actual spending was?

Mr. MILLER. For the other items, it reflects the post-Gramm-Rudman sequester and entitlement programs adjusted for inflation.

Senator CHILES. So there is a difference. Again, you treated defense differently?

Mr. MILLER. Yes, and I understand that has been the case in the past.

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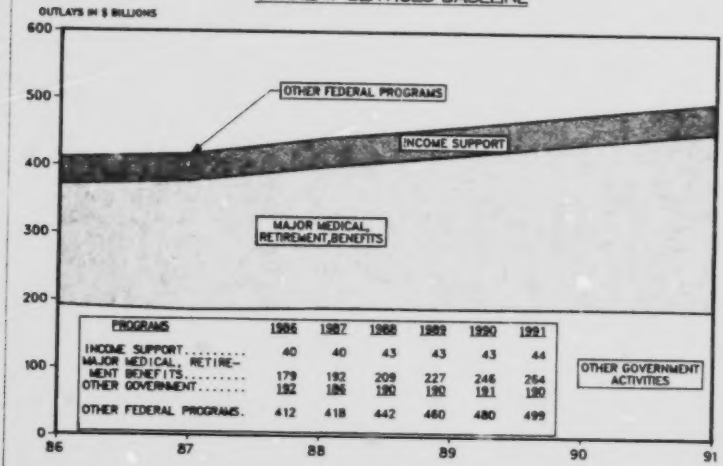
CHART 11

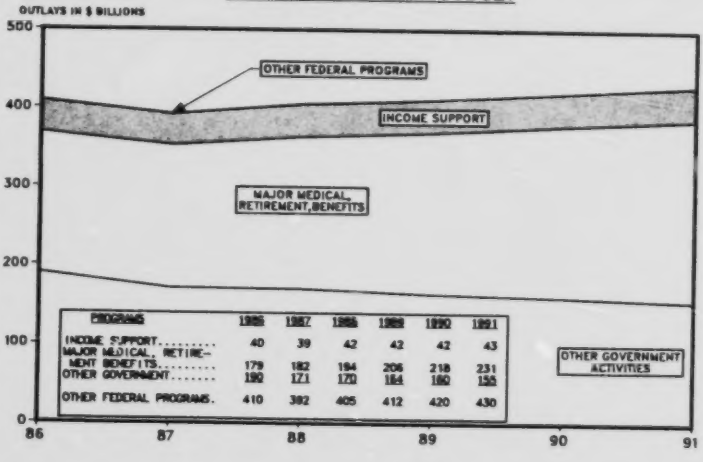
CONTENT OF OTHER FEDERAL PROGRAMS: CURRENT SERVICES BASELINE



PROGRAMS	1986	1987	1988	1989	1990	1991
INCOME SUPPORT	40	40	43	43	43	44
MAJOR MEDICAL, RETIREMENT BENEFITS	179	192	209	227	246	264
OTHER GOVERNMENT	192	186	190	190	191	190
OTHER FEDERAL PROGRAMS	412	418	442	460	480	499

CHART 12

CONTENT OF OTHER FEDERAL PROGRAMS: PRESIDENT'S FY 1987 BUDGET



PROGRAMS	1986	1987	1988	1989	1990	1991
INCOME SUPPORT	40	39	42	42	42	43
MAJOR MEDICAL, RETIREMENT BENEFITS	179	182	184	206	218	231
OTHER GOVERNMENT	190	171	170	184	180	155
OTHER FEDERAL PROGRAMS	410	392	405	412	420	430

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OTHER PROGRAMS

This, right here, breaks out this "all other" area into three major components, income support, major medical retirement benefit programs and all other government activities. Again, the one on the left here is the current services budget and the one on the right is the President's budget.

As you can see, they look very much the same. This one is rather flat at the beginning and goes up. This one dips down a little bit in 1987 and then continues to go upward. Let's go to the next one.

Now, what I would like to do is look at each one of these major components.

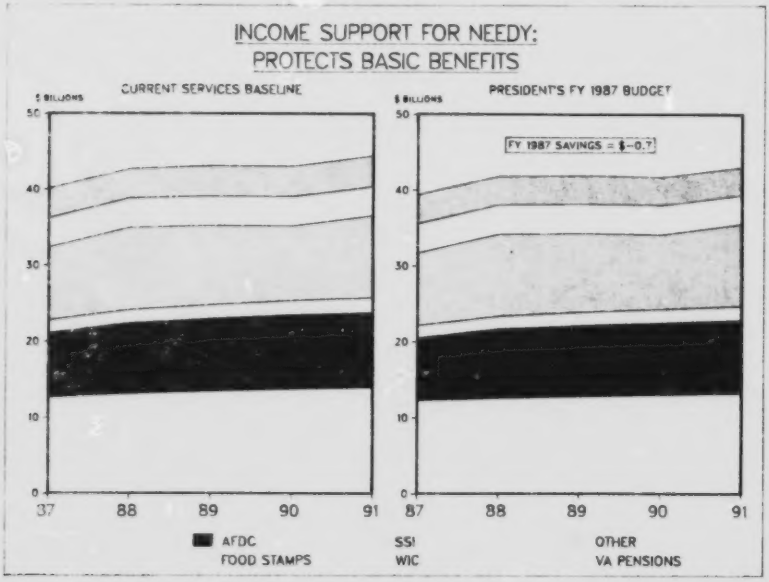

CHART 13

LOW INCOME SUPPORT PROGRAMS

This chart on the left is the current services baseline. On the right side is the President's budget. As you can see visually, inspecting, they are very much the same. The reason is that very little monies were taken from this part of the budget for fiscal 1987, only $700 million.

This is the low income support programs for the poor and the needy, AFDC; food stamps; WIC; SSI; veterans pensions, and others, and there is virtually no change. Those changes that we did make are directed toward more specific target service delivery and saving on some administrative expenses.

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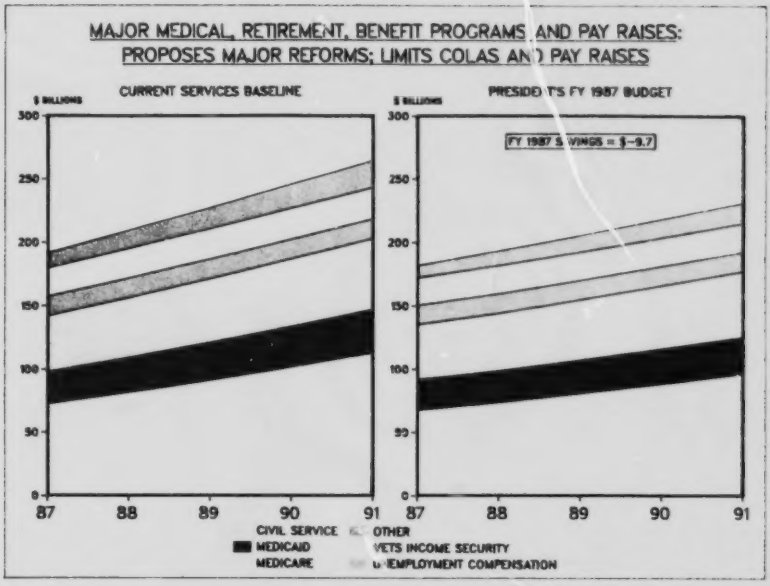

CHART 14

MEDICAL AND RETIREMENT AND BENEFIT PROGRAMS

Next, let's look at that second part, that second area. As you can see, there are some savings here in the major medical and retirement and benefit programs. The President's budget has these going up at a slightly lower rate than current services, and also starting at a slightly lower figure.

There is a savings of about $10 billion for fiscal 1987 out of a base of about $190 billion. So you are looking at about a 6 percent savings in this area for fiscal year 1987.

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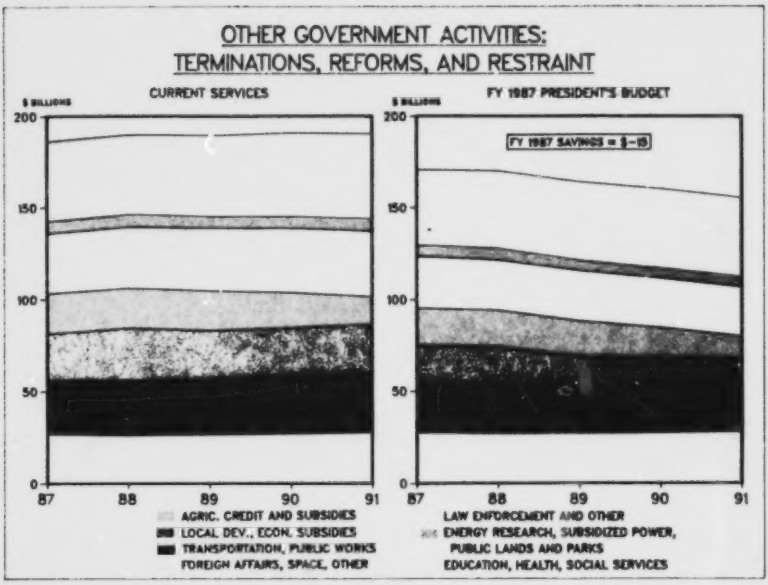

CHART 15

CURRENT SERVICES

In the final area, that bottom area, all other the current services line is essentially constant across. The President's budget is rather constant for 1987 and goes down thereafter. It also starts from a slightly lower base. Savings are $15 billion in fiscal year 1987 from a base of about $180 billion; still, of course, less than 10 percent.

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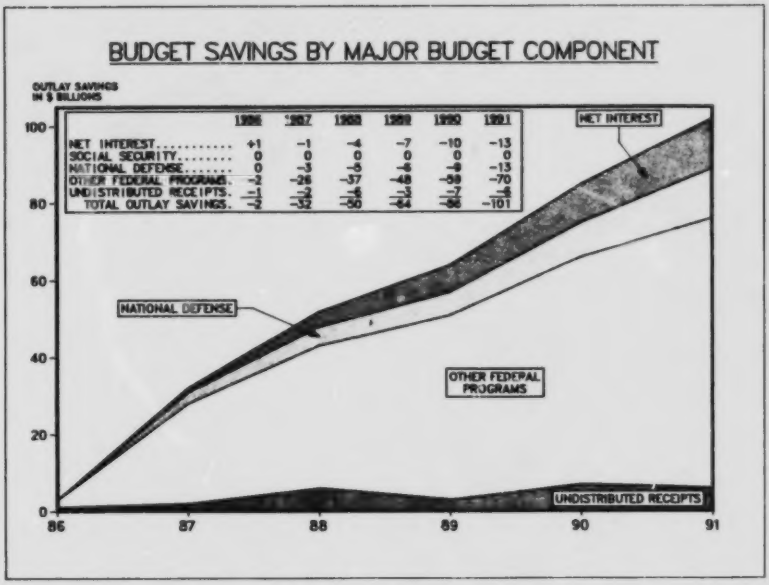

CHART 16

SAVINGS UNDER PRESIDENT'S BUDGET

This final chart, I wish I made a revised version to show you, because it is not as complete as I would like for it to be. This shows the savings that would be realized under the President's budget for the period 1986 through 1991. Bear in mind that this is simply the outlay side and does not include the $6.3 billion in additional revenues that are contained in the President's budget.

As you can see, there is a wedge of savings for net interest. We have the savings for net interest for two reasons. With a lower deficit, we have less debt to service. Also, because of Gramm-Rudman-Hollings, we anticipate that the real interest rate will be lower. Therefore, the product of these two smaller numbers give us some savings in interest.

There is a savings wedge for national defense for the reasons that I indicated earlier.

Let me direct your attention to the bottom line here.This is undistributed receipts. These are user charges, assets sales, and privatization where the monies go directly to the Treasury.

There is another wedge that is not pictured here that I am trying to draw up now which are called distributed receipts. Those are the monies, user charges for asset sales, and privatization, which by law goes back to the agency, and essentially, offset any additional funding that they would need.

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So what you have is about $6.3 billion in revenues, and this package of $38 billion of savings. You have $6.3 billion in increased revenue, receipts by the Treasury directly, receipts by the Treasury; you have over $6 billion in asset sales, user fees and privatization; you have about $1.2 billion for 1987 in the form of net interest; you have $3 billion savings in defense; and the remainder, $21.6 billion, is the savings, the programmatic cuts in other federal programs, $21.6 billion out of a base of about $418 billion, which means just over a 5 percent or just over a nickel on the dollar.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Miller follows:]

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

PREPARED STATEMENT OF JAMES C. MILLER, III

DIRECTOR

Mr. Chairman and Members of the Committee: it is a pleasure to appear before you today to present President Reagan's budget for FY 1987. It is even more of a pleasure for me to be here at this time because of the economic expansion the country is now enjoying, one of the most vigorous in 35 years. Disposable household income is at an all-time high; production and productivity are increasing; and employment gains have been extraordinary. Inflation, which raged at double-digit rates just five years ago, has been reduced dramatically. During the past three years, real GNP has grown at more than double the annual rate of the last three years of the previous administration. The prime rate of interest and other key interest rates are less than half what they were five years ago. Also, during the past three years corporate profits increased 117 percent and stocks nearly doubled in value.

I could go on and on reciting positive economic indicators. The point is that the economic recovery that began in 1982 is now in its fourth year -- and it shows no sign of ending.

This dramatic turnaround in economic performance was not an accident. Rather, it was a result of steadfast adherence to the economic program the President presented in February of 1981:

- Restraining the growth of Federal spending;
- Reducing tax rates;
- Relieving the economy of regulatory excesses; and
- Encouraging a sound and stable monetary policy.

Conditions are now favorable to a continuation of our remarkable economic expansion. However, we must take cognizance of one major threat looming on the horizon: the Federal deficit. Unless we do something about the deficit, we risk not only a slackening of economic activity, but further burdening future generations with the costs of our current collective consumption.

We simply cannot let this happen. Therefore, the

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President's budget has as a major objective getting the deficit under control and achieving a balanced budget by FY 1991. In so doing, this budget meets or exceeds the deficit reduction targets set out in the Balanced Budget and Emergency Deficit Control Act, commonly known as Gramm-Rudman-Hollings.

Last fall, a bipartisan consensus developed to do something about the deficit. This consensus, which took the form of Gramm-Rudman-Hollings, committed both the President and the Congress to a reasonable, fixed schedule of progress. By submitting this budget, the President abides by the law and keeps his part of the bargain.

This budget shows, moreover, that eliminating the deficit is possible without raising taxes, without sacrificing our defense preparedness, and without cutting into vital programs for the poor and elderly. A tax increase would jeopardize our economic expansion and thus could even prove counterproductive in terms of its effect on the deficit. We cannot turn away from our responsibility to maintain a strong defense, especially now that prospects appear good for meaningful arms reduction talks. And we must not break faith with those poor and elderly who depend on Federal programs for their economic security.

The President proposes a FY 1987 budget with outlays of $994.0 billion and receipts of $850.4 billion. The budget proposals would thus hold the deficit to $143.6 billion -- $400 million below the Gramm-Rudman-Hollings target for FY 1987. On a current services basis, outlays are estimated to be $1,025.9 billion and receipts $844.1 billion, resulting in a deficit of $181.8 billion. This is what the deficit would be without Congressional action, and clearly it's too high.

In order to achieve the Gramm-Rudman-Hollings target, the President's budget proposes to reduce the FY 1987 deficit by $38.2 billion from the current service level. Of this amount, $6.3 billion comes from higher Government revenues. These receipts are a result of increased employee contributions to Federal retirement funds, initiatives by the Internal Revenue Service to collect more of the taxes already owed, and accepting the all-but-inevitable extension of the extra eight-cents- per-pack tax on cigarettes. An additional $3.2 billion comes from selling various real and financial assets. Increased user fees account for $2.4 billion in FY 1987, and reduction in the deficit will save some $1.2 billion in interest expense.

This leaves $25.1 billion to be derived from programmatic reductions from current service levels. Since $2.7 billion of this amount comes from reductions in defense funding -- while still preserving the three percent real program increase agreed to in the 1986 Congressional Budget Resolution -- only $22.4 billion of the $38.2 billion -- less than 60 percent -- must be obtained from cuts in domestic programs, defined as total outlays excluding interest on the debt, Social Security, and, of course, national defense.

Before anyone criticizes these proposed programmatic reductions, he or she should consider three important facts.

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- First, the proposals, if enacted, would cut the current services base for these domestic programs by less than 5.4 percent. I repeat, programmatic cuts of less than 5.4 percent are all that are required to meet the FY 1987 Gramm-Rudman-Hollings target.

- Second, if these programmatic reductions are made in FY 1987, the future effect of these reductions, combined with the rest of the President's proposals and expected real economic growth, are large enough that we can meet all of the Gramm-Rudman-Hollings targets -- through FY 1991 -- without having to make any more programmatic cuts.

- Third, outlays for these domestic programs are estimated to increase by 10 percent between FY 1984 and FY 1986, even after taking into account the FY 1986 sequester and proposed rescissions. The point is that domestic spending has not been "cut to the bone" already as some have claimed.

The President's budget proposes to achieve the deficit reductions necessary to reach the Gramm-Rudman-Hollings targets by:

- Ending Federal activities that have outlived their usefulness;

- Transferring to State and local governments or the private sector those activities that they can carry out more efficiently;

- Reducing Government competition with the private sector;

- Modifying the operations of many other programs, including the better targeting of social services; and,

- Making the remaining Government programs more efficient, more effective, and more accountable.

Despite the very tight fiscal environment, this budget provides funds for maintaining -- and in some cases expanding -- high-priority programs in crucial areas of national interest. Services and income support for the dependent poor and the elderly receive substantial funding in this budget. So do other programs of national interest -- including drug enforcement, AIDS research, the space program, nonmilitary research, and national security.

Although national security programs continue to be one of the President's highest priorities, they have not been exempt from general budget stringency. Since 1984, the President has agreed to large reductions in his requests for defense budget authority:

- The Rose Garden agreement with Congress in May 1984 cut $55 billion from the President's proposed FY 1985 five-year plan.

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- Congress then reduced the agreed-to Rose Garden level for FY 1985 by an additional $8 billion.

- In the FY 1986 budget, the Administration reduced the Rose Garden five-year levels by another $37 billion, due in part to revised pay and inflation assumptions.

- Last summer, the FY 1986 Budget Resolution compromise, which the President reluctantly agreed to, provided no real growth in FY 1986 and only three percent per year thereafter. This compromise yielded savings of $290 billion from the President's FY 1986 budget five-year plan.

- Congress actually cut 1986 appropriations $16 billion below the agreed-to level, including the effect of the Gramm-Rudman-Hollings sequester. Rather than the zero real growth agreed to in the Resolution, the 1986 level was reduced by about six percent in real terms -- not a pause but a two-year retreat.

The FY 1987 budget provides the same 1987 program level agreed to in the Budget Resolution compromise and three percent real growth in following years. However, the FY 1987 budget adjusts the Budget Resolution levels to reflect lower pay and inflation assumptions. These adjustments result in another $45 billion in savings for the five-year plan as compared to the Budget Resolution. Because of the six percent real decline in 1986, the proposed 1987 level does represent about eight percent real growth over 1986. Nevertheless, the President's FY 1987 proposed level for defense does not exceed the three percent real increase from the level that the Congress agreed to provide last August, and arguably is only a little over two percent higher in real terms than the actual 1985 level.

Some have questioned the FY 1987 estimate of national defense outlays included in the FY 1987 budget. I want to reaffirm that our estimate of $282.2 billion for FY 1987 national defense outlays represents our best judgment at this time.

Estimating outlays is a very complex task and depends not only on program composition and historical outlay rates but also on a variety of factors external to the defense program. It is also important to remember that, for each of the past several years, OMB actually overestimated defense outlays -- by $4 billion in 1983, $10 billion in 1984, and $2 billion in 1985. Our current estimates take into account and compensate for the causes of these recent overestimates.

As a benchmark, it should be noted that the budget estimates of defense outlays are higher than they would be if we had adopted as our starting point the assumptions in the 1986 Budget Resolution approved by Congress. This is true even though our projected outlays of $282.2 billion are less than those of the Resolution -- $285.2 billion. Let me explain.

The Resolution outlays were based on FY 1986 budget authority of $302.4 billion and a FY 1987 level of $323.4

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billion. However, the final FY 1986 amount, after Congressional action on the Continuing Resolution and the 1986 Gramm-Rudman-Hollings sequester, is only $286.1 billion, or $16.3 billion less than the Resolution, and the proposed FY 1987 amount is $320.3 billion, or $3.1 billion less.

The FY 1987 outlay reductions resulting from these FY 1986 and FY 1987 budget authority reductions are about $8 billion. Given what actually happened, Resolution outlays would fall from $285.2 billion to $277.2 billion. Thus, if we had used the Resolution assumptions, our FY 1987 outlay estimates would have been $5 billion lower than the $282.2 billion figure contained in the President's budget.

Although we think that outlay rates will be somewhat higher than those assumed in the Resolution, they are likely to be lower than might have been estimated based on past experience. There are several reasons for this. For example, the effect of the continuing growth in the economy should shift corporate attention from defense to nondefense orders. Also, possible delays in deliveries might result from procurement reforms instituted by the Administration and legislated by Congress. And there are possible delays and uncertainties associated with the effects of Gramm-Rudman-Hollings. Each of these effects should lead to some reduction in outlays.

After taking into account all of the factors that I have mentioned, we continue to believe that the $282.2 billion outlay estimate contained in the FY 1987 budget is wholly realistic.

Accompanying this budget is the Administration's second report on management, the first signed by the President. The report describes the program that we call "Reform 88", which is this Administration's effort to upgrade the management of executive-branch agencies. It summarizes the progress we have made in the areas of cash management and debt collection, and outlines future steps we will be taking to improve the management of Federal loan portfolios. It describes efforts to upgrade agency financial systems for both improved efficiency and better control. Finally, it describes a comprehensive program which is expected to boost Federal productivity in selected Federal programs some 20 percent by 1992. This initiative should yield not only cost savings, but significant improvements in program delivery. In general, the report indicates that sound business practices can be brought to bear on Government programs and yield positive results.

In summary, the President's budget provides adequate funding for vital programs for the poor and elderly, for our Nation's defense, and for other high priority programs, and yet meets the FY 1987 Gramm-Rudman-Hollings deficit target without raising taxes. Moreover, the President's budget meets all the Gramm-Rudman-Hollings deficit targets through FY 1991 without increasing tax rates in any year.

Mr. Chairman, I recognize how difficult it will be to make some of these cuts I have outlined here today and that are detailed in the budget document. Strong special interest groups exist to lobby for almost every Government

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program, no matter how inefficient, outdated, or irrelevant to the average taxpayer. Moreover, countless repetitions of antidoted horror stories and endless renditions focusing on specific cuts will create in the minds of many an image of the budget that is totally divorced from reality. The single fact is, that in exchange for a $3 billion cut in defense and $23 billion in cuts in domestic programs -- a nickel on the dollar -- we avoid both a FY 1987 sequester and additional cuts in later years. Is this really too much to ask?

The President's budget, through a combination of increased revenues, program terminations -- many of them long overdue --, spending cuts, and other reforms, meets the $144 billion deficit target for FY 1987. Any alternative approach would attack the family budget by increasing taxes, would weaken our national security posture, or would break faith with the poor and the elderly.

The President's approach, I submit, is in the long-term interest of the American people. Accordingly, I urge you give it a prompt and favorable response.

Mr. Chairman and Members of the Committee: that completes my statement. I shall be happy to address your questions.

BASELINES AND REDUCTION PERCENTAGES

Chairman HATFIELD. Thank you, Mr. Miller.

Mr. Miller, as you know, in the past, this committee and the OMB and the CBO have had some difficulty in finding common, agreed baselines, measurements, reductions and so forth, and we obviously have narrowed that gap as of now by the CBO reports and your reports.

But let me turn, if I could, first of all, to your budget book here, back in the budget, 6E-30. I want to refer to that, and I want to start with page 3 of your testimony, because this raises, again, a question of how we compute or calculate the baselines and percentage of reductions. Now we add another ingredient with Gramm-Rudman-Hollings to further complicate.

On page 3 of your prepared statement, you say that your 1987 budget would cut the current services base for domestic spending by less than 5.4 percent.

Senator BUMPERS. Mr. Chairman, is that this blue book you are reading from?

Chairman HATFIELD. I am taking, first of all, the statement, and then I am going to refer to the budget book, this book.

Senator BUMPERS. The one we don't have?

Senator DECONCINI. Your staff has it.

Chairman HATFIELD. You weren't here at the time they were distributed, I guess, Mr. Bumpers.

[Laughter.]

Senator BUMPERS. Please proceed, Mr. Chairman. I have the book now.

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Senator DECONCINI. Tell us what page you are on, that is all.

CONTROLLABLE DOMESTIC SPENDING

Chairman HATFIELD. Let's look at the controllable domestic spending, the type of spending that this Committee has jurisdiction over. The table on page 6E–30 of your budget indicates that relatively controllable outlays would fall from $104.8 billion in 1986 to $86.9 billion dollars in 1987 under your budget.

That is down about two-thirds of the way, where it says "civilian programs". This is a drop of over 17 percent, and between 1985 and 1987, the outlay cut would be almost 30 percent. First of all, there is the question relating to the baselines upon which we are calculating these reductions, and the second one, of course, is, do you see hardships or do you see problems in this kind of reduction schedule that really is what I believe to be, say, 30 percent rather than the 5.4? There is a considerable difference in baseline computation.

Mr. MILLER. It seems to me, that I can't, off the top of my head, tell you everything that is in this controllable, relatively controllable base. I would have to tell you that. The description I gave you is accurate. That is, for AFDC, these programs are relatively insulated, $70 million dollars out of a base of $40 billion, and for major medical and retirement benefit programs, about $10 billion, about half of that for Medicare, about $1 billion for Medicaid, and the lower portion ranging from transportation to agriculture; and you see everything else, we take about 10 percent.

Obviously, for those things that are hit very hard like the ICC, which will be terminated, the reduction is the maximum. It would vary by program, and I would have to know what was in this.

BASELINE ON 5.4 PERCENT CALCULATION

Chairman HATFIELD. Would you submit for the record what you compute as the baseline on your 5.4 percent calculation?

Mr. MILLER. Right.

Chairman HATFIELD. Because it might include in domestic, for instance, entitlements, upon which we really do not have jurisdiction in terms of moving those reductions.

Mr. MILLER. That is true. That is true.

[The information follows:]

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BASELINE ON 5.4% CALCULATION

The net $22.4 billion reduction in outlays from the "Other Federal Programs" current services baseline of $417.9 billion (see attachment), is slightly less than a 5.4% reduction.

ATTACHMENT

MAJOR BUDGET COMPONENTS: CURRENT SERVICES BASELINE
(outlays in billions of dollars)

	FY 87
o Net Interest	149.2
o Social Security	209.6
o National Defense	
Department of Defense	276.7
DOE Nuclear Weapons, Other	8.2
Total, National Defense	284.9
o Other Federal Programs	
Income Support for Needy	40.1
Major Medical, Retirement, and Benefit Programs	191.7
Other Government Activities:	
Foreign Affairs, Space, Coast Guard	26.8
Transportation and Public Works	29.4
Local Development and Economic Subsidies	25.1
Agriculture Credit and Subsidies	22.0
Education, Health and Social Services	32.6
Energy Research, Subsidized Power, Public Lands and Parks	6.5
Law Enforcement, and Other Core Functions	43.6
Total, Other Government Activities	186.1
Total, Other Federal Programs	417.9*
o Gross Federal Outlays	1061.7
o Undistributed Offsetting Receipts	-35.8
o Net Federal Outlays	1025.9

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WELFARE REFORM PROGRAM

Chairman HATFIELD. Let me give you another example. Recently, President Reagan announced a welfare reform program which I highly applaud. I think that it is long past due. But in that announcement, we stated that there were $110 to $120 billion in programs designed to assist those with low incomes. So that communicates to me a certain baseline.

Yet in arguing that there were only $700 million in reductions in the low income area, you used a list of only $40 billion in programs relating to safety net programs. It seems to me that here again, we have to understand the baseline. You use $40 billion from the President when the President's list is three times that large, and if you use the President's list, it would seem to me that the total sum of the cuts that you have recommended would be close to $8 billion, not $700 million. Do you see my problem?

Mr. MILLER. Yes. Obviously, with two different bases, I would just simply have to provide to you for the record the difference between those two bases.

Chairman HATFIELD. All right.

[The information follows:]

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BASELINE DIFFERENCES

The President, in the State of the Union speech, announced a study, not a program. He charged the Domestic Policy Council to present to him, by December 1, 1986, "an evaluation of programs and a strategy for immediate action to meet the financial, educational, social, and safety concerns of poor families."

The $120 billion figure referred to by the President is illustrative, and represents an estimate of 1984 spending at all levels of government on Federal programs designed specifically to relieve poverty and reduce dependency. It includes cash, housing, food assistance, some employment and training programs among others.

The $40.2 billion figure in the proposed FY 1987 budget reflects Federal outlays for selected income maintenance programs, a list of which is attached.

The question about baselines arises, I believe, because the Committee is concerned about the effects of our budget proposals on those in need. In preparing our budget, we protected benefits for the needy provided under major cash and in-kind benefit programs designed to meet basic needs. These programs, 1987 current service estimates for which total $84 billion, include AFDC, SSI, Food Stamps, Child Nutrition, Medicaid, WIC, subsidized housing programs in HUD and USDA, Refugee and Entrant Assistance, Low-Income Home Energy Assistance, and Veterans' Pensions. Because of the substantial Congressional interest in the effect of our budget on beneficiaries in these programs, I have explained our proposals in some detail in my response to supplemental questions 29 and 30.

PROGRAMS IN $40 BILLION BASELINE
(1987 Outlays in Billions)

	Current Services	Budget Request
SSI	$ 9.6	$ 9.6
AFDC	8.4	8.2
Veterans' Pensions	3.8	3.8
Low-Income Energy Assistance	2.1	2.1
EITC	1.2	1.2
Section 32 Commodity Purchases	0.3	0.3
Food Stamps & Nutrition Assistance to Puerto Rico	12.7	12.3
WIC	1.6	1.6
Food Donations Program	0.2	0.2
Emergency Food Distribution & Shelter Program	0.1	0.0
TOTAL	$40.0	$39.3

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OMB began to discuss the need for a Supplemental with Treasury during our budget review process last fall. Although we clearly recognized the need to prevent a recurrence of the 1985 processing problems, we wanted to see how much progress IRS was able to make in reducing the lingering backlogs before settling on a funding level.

By waiting to include the Supplemental in the President's budget we were able to get the Commissioner's most current estimate of additional needs for 1986 which, as it turned out, were higher than the earlier estimates.

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TERMINATION OF SOME EXISTING PROGRAMS

Chairman HATFIELD. You and I were talking recently about the possibility of terminating some programs, and I raised the question that if such programs were to be terminated, is there a transition, or do you foresee these programs just being abolished and no one else picking them up, State and local government or private sector. It is my understanding, along that line, that you propose to eliminate about a dozen low income programs, including two emergency food assistance programs; low income; weatherization; Section 202 of the housing for elderly and handicapped; community services block grant; the work incentive program; legal services; farm labor housing and others.

My question is, do you foresee that these programs, if they were agreed to, would be picked up by someone else, or do those people no longer have this kind of assistance, or where will they find this assistance if we are to terminate these programs?

Mr. MILLER. Some activities would not be picked up wholly. I mean, if you eliminated the ICC, some of the functions would be transferred to the Department of Transportation; some to the Department of Justice.

But on the whole, the regulatory apparatus would not survive at all, and I don't think there is a reason for it.

In some of the other areas, where we have terminated programs, one reason we propose terminating programs is because we feel that other programs can pick up the load and be more cost-effective in reaching out to those people who are the deserving or intended recipients of those services. And there are some other programs that we don't terminate immediately, but do it over a period of time.

TRANSITION PERIOD FOR TERMINATED PROGRAMS

Chairman HATFIELD. Mr. Miller, do you have a transitional period for some of those that you do expect to be picked up elsewhere?

Mr. MILLER. Yes.

Chairman HATFIELD. Or are they to be abruptly cut off without consideration of transition?

Mr. MILLER. No; we have transition consideration for some of them. I would be glad to give you a breakdown for that.

[The information follows:]

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TRANSITION PERIOD FOR TERMINATED PROGRAMS

There is a transition period before programs are terminated, as shown on the attached table, "Selected Major Proposed Program Terminations and Phase-outs". The transition results from outlays that continue beyond the termination of budget authority. This provides for the phase-down of a program while commitments are being paid for prior obligations.

The most extensive transition is for funding for the sewage treatment plant construction grants by the Environmental Protection Agency. Under the Administration's proposal, some budget authority would continue through 1989, and estimated outlays would still be $1.3 billion in 1991, providing a lengthy transition. For other programs, budget authority would terminate after 1986, but in most cases a transition period would continue beyond 1986 in which some outlays would occur. This period would be the longest for construction programs, in which spending in some cases would continue through 1991, such as for economic development assistance, the Appalachian Regional Commission, and urban development action grants. For general revenue sharing, the only program in the table with no outlays in 1987, the transition year in fact is 1986, since the 1986 Budget Resolution did not include funding for 1987. Recipients therefore have had a full year to plan for the elimination of this program.

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SELECTED MAJOR PROPOSED PROGRAM TERMINATIONS AND PHASE-OUTS
(estimates in millions of dollars)

	1986	1987	1988	1989	1990	1991
Amtrak:						
Budget authority	562	---	---	---	---	---
Outlays	671	48	---	---	---	---
Washington metro construction:						
Budget authority	217	---	---	---	---	---
Outlays	149	187	247	250	---	---
EPA sewage treatment plant construction grants:						
Budget authority	2,374	1,800	1,200	600	---	---
Outlays	2,820	2,395	2,192	2,116	1,808	1,309
Library programs:						
Budget authority	89	---	---	---	---	---
Outlays	129	75	35	4	---	---
Community services block grant:						
Budget authority	172	4	---	---	---	---
Outlays	233	62	---	---	---	---
Legal Services Corporation:						
Budget authority	292	---	---	---	---	---
Outlays	301	38	---	---	---	---
Work incentive program:						
Budget authority	165	---	---	---	---	---
Outlays	180	25	5	---	---	---
General revenue sharing:						
Budget authority	3,425	---	---	---	---	---
Outlays	4,433	---	---	---	---	---
Economic development assistance:						
Budget authority	139	---	---	---	---	---
Outlays	225	174	120	63	37	24
Appalachian Regional Commission:						
Budget authority	36	---	---	---	---	---
Outlays	154	124	88	51	19	5
Urban development action grants:						
Budget authority	109	---	---	---	---	---
Outlays	488	413	331	214	67	26

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CUT IN POVERTY PROGRAMS

Chairman HATFIELD. Another example of trying to find a common base and nomenclature, in the State of the Union message, the President said that we needed to provide a ladder of opportunity out of poverty, and yet the budget would cut the Job Corps by more than 40 percent, summer youth employment over a third, and the work incentive program by 100 percent.

Don't you think that these are really some of the rungs of that ladder that we are suggesting here to be either eliminated or so drastically reduced that that ladder of opportunity is going to be limited?

Mr. MILLER. First, a matter of perspective, Mr. Chairman. I think an expanding economy swamps any of these programs in terms of their overall effects in providing opportunity and providing upward mobility, and this is the major objective of this budget within the Gramm-Rudman-Hollings deficit reduction. It maximizes the chances our economy will continue to expand and create opportunities for all Americans.

JOB CORPS CUTBACKS

With respect to the Job Corps, as you may recollect, last year the administration proposed eliminating the Job Corps. On the basis of additional research that we have been able to review, I made the decision to recommend to the President that we cut the Job Corps back, eliminate some of the inefficient units of education and Job Corps training, but to retain the others. To cut it back essentially to the level it was under President Carter's presidency.

Some of the other programs, including the WIN, there are alternative ways of providing those kinds of services, and the programs you identified, we found, on the whole, to be rather cost ineffective.

Chairman HATFIELD. At least in part, you are gambling on an economic return to pick up the slack here?

Mr. MILLER. We are trying to maintain this. We have been in some 38 months of expansion, and we want to make sure that that continues.

FISCAL YEAR 1987 DEFENSE OUTLAYS

Chairman HATFIELD. All right. One other baseline question is, the preliminary CBO estimate by Mr. Penner for defense outlays in fiscal year 1987 is $14.7 billion higher than the estimate in your budget.

Now, if, after review, you find that the CBO estimate is correct, what would you recommend for the adjustment in that to the President, additional spending reductions or new tax increase, or what would you do?

Mr. MILLER. We are looking at the CBO results. We know what the numbers are now. We have asked them and had some discussion with them. Basically, they base their predictions, on a perception of higher spendout rates in the last couple of months, but I do not believe there is any reason at this point to revise our figures. If I were so persuaded, and I felt that there was nothing offsetting that, then I might be willing, might be inclined, to recommend to the President that we suggest additional cuts somewhere, but I don't at this time.

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As you know, even if I were convinced that we had underestimated defense outlays—and again, I am not—and that this were the only change and that we didn't overestimate somewhere else, in terms of outlays, I would have to look at the economy.

As you know, the economy has grown more robust since we made our decisions about what rates of growth and inflation assumptions, et cetera, to incorporate in the budget.

CBO/OMB DEFICIT ESTIMATES

Chairman HATFIELD. Mr. Miller, though, don't you see the quandry you put the Appropriations Committee in at this point, unless you expect this to be adjudicated in the Budget Resolution between those two basic estimates? We cannot, under the Gramm-Rudman-Hollings, even proceed to take a bill to the Floor until that is resolved through the Budget Resolution.

Mr. MILLER. Well, as I recollect, the Budget Resolution simply has to have an understanding on what the total deficit would be.

For example, if you adjust CBO's figures for our assumptions on defense, you get higher outlays. On the other hand, if you adjust CBO figures for your assumptions with respect to general revenue sharing, for example, you get lower outlays. On the whole, they tend to wash.

Chairman HATFIELD. My time is up.

Senator Stennis?

Senator STENNIS. I will pass for the time being.

Chairman HATFIELD. We have a vote on,.

PRESIDENT'S SUGGESTED CUTS IN CUSTOMS SERVICE

Senator DECONCINI. Mr. Chairman, I would be glad to ask some questions. Mr. Director, my questions are not going to be quite as wide-ranging as the Chairman's were, but I am very interested in some of the information that you agreed to get to us.

But Mr. Miller, this administration has sent to Congress six consecutive budgets, all calling for deep cuts in Inspection and Customs Service, an agency that not only leads our drug interdiction effort, but also brings about $3 billion a year into our Treasury. Fortunately, this committee has continually restored the positions that the President wants to cut.

Next year, you are proposing to cut out 446 permanent full-time positions. About 726 of these are the result of Gramm-Rudman-Hollings, but the balance of 720 are a cut that will be taken in Customs law enforcement; inspection and commercial operations. Particularly hard hit would be the drug enforcement and the inspection of high tech exports headed for the Soviet Union bloc.

Why does OMB and the President, I have to assume, continue to gang up on the Customs Service year after year at a time when drugs are flowing across the borders and when we we are looking for every dollar of revenue we can find?

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Mr. MILLER. Well, Senator DeConcini, the enforcement of the drug laws is a very important priority for the administration. In fact, there will be, for fiscal 1987, a $146 million increase in outlays in this area, if you include all of the 20 agencies that are involved in drug enforcement. There are some cuts, as you indicated, in Customs.

BUDGET CUTS IN AIR INTERDICTION AREA

Senator DECONCINI. Mr. Miller, when 60 percent of the cocaine comes into this country via air, it is estimated and concluded by all our law enforcement agencies that the Customs Service is the front line on the air interdiction and yet you cut it substantially this year. I want to know why or how did you come to that conclusion that this is the right thing to do.

Mr. MILLER. Basically, it is the judgment of those in the administration who have hands-on experience and are working with this, that this allocation of sources among the 20 agencies involved in fighting the drug flow problem is the most cost effective. As I indicated, we have asked for an increase of $146 million in outlays for fiscal 1987.

NATIONAL NARCOTIC BORDER INTERDICTION

Senator DECONCINI. Did you have input from NMBIS in formulating this particular proposal in your budget?

Mr. MILLER. From NMBIS. What does that stand for?

Senator DECONCINI. That's the National Narcotic Border Interdiction group headed by the Vice President.

Mr. MILLER. Oh, yes.

Senator DECONCINI. Did you have——

Mr. MILLER. Yes. The people who are members of that effort, specifically a representative of the Vice President, was involved in the preparation of the budget.

Senator DECONCINI. Did you meet with the Board?

Mr. MILLER. I did not personally meet with the Board. I understand that my associate director, Carol Crawford, did.

ADMINISTRATION SUPPORT OF DRUG INTERDICTION PROGRAM

Senator DECONCINI. I don't have the direct words of the President before me, but right before his meeting with Mr. de la Madrid, the President of Mexico, he said, on his way to California, that drug and organized crime were the number one problems that this country faces, and the President has been very strong publicly in support of doing something about the problem. Congress has perhaps overreacted—I don't think so—by creating the P3 program, the aerostat balloons, and in 1987, you reduced the Customs air program by $54.7 million, $20.3 million below the 1986 approved level.

Now, you know, it is hard for some of us to get a clear signal. Mr. Miller, are you and the President really committed to this air interdiction program, and why don't you look at adjusting some of these funds someplace else when you have such a good program going?

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Mr. MILLER. Again, I think our objective is the same, and that is to win the war on drugs. I mean, drugs are causing a terrible toll on Americans. The budget that we have, however, for Customs, $54.7 million, is consistent with the actual operations of 1985 in terms of the ability to detect and to apprehend smugglers. This budget level will allow all available scheduled aircraft to fly full missions. The budget resources for the Customs Service airplane interdiction program have increased 150 percent.

COST EFFECTIVENESS OF P-3 AIRCRAFT USE

Senator DECONCINI. It will not allow the additional two P3s that have already been authorized to be picked up and fly the 100 hours. It only barely authorizes the operation of the four existing P–3's, but there are two in the 1986 budget that you wiped out.

Mr. MILLER. Right.

Senator DECONCINI. So it doesn't allow more.

Mr. MILLER. We conclude that the P–3's are not cost effective.

Senator DECONCINI. That is the position——

Mr. MILLER. Yes.

Senator DECONCINI [continuing]. Of the administration?

Mr. MILLER. That is right.

Senator DECONCINI. The P–3's are not cost effective?

Mr. MILLER. They are not cost effective.

Senator DECONCINI. What alternative do you propose?

Mr. MILLER. The allocation for the 20 agencies involved in drug interdiction, according to, as we propose in the budget. I would be glad to—this is described on page 17 and 18 of the publication.

Senator DECONCINI. Obviously, I don't have time to finish this because I have to vote, but I have a lot of questions I will submit for the record.

Mr. MILLER. OK.

Senator DECONCINI. Mr. Miller, I can only say that you surely leave this member of the Appropriations Committee with a definite, clear message that you guys are not serious about the drug effort, and I wonder if the President really knows that. Because when he said it is the number one problem—he is talking to the President of Mexico—and then he is cutting back on the air interdiction program and target balloons, there isn't anything to conclude other than it is just not something that is important.

Mr. MILLER. The President's long-time friend and confidant, Ed Meese, is the head of this interdiction program. He is heading this 20 agency group.

Senator DECONCINI. Mr. Bush is the head of it.

Mr. MILLER. And there is $140 million additional, in times of fiscal constraints, that we have added to that purpose.

Senator DECONCINI. Thank you. The committee will stand in recess until the return of a member. Thank you, Mr. Miller.

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[Short recess.]

ECONOMIC SITUATION IN LOUISIANA

Chairman HATFIELD. The committee will come to order. The Senator from Louisiana, Mr. Johnston?

Senator JOHNSTON. Thank you, Mr. Chairman. Dr. Miller, I don't know whether you are familiar with the situation in Louisiana now. I can characterize it as being a depression. Unemployment reached 11.5 percent at last count, and that was before the price of oil had fallen almost $10 dollars a barrel; we had a $400 million deficit in the State budget. With the price of oil going down, it looks like that is going to be more like a billion dollars. We are hearing talk about a massive layoff of State employees, over 10,000. There is talk also about schools, universities, having to lay off professors and departments and programs and charity hospital cutbacks. It is very, very sad.

So with that kind of situation, I am particularly concerned about what this budget does to Louisiana. By my reckoning, it hurts Louisiana much worse than any other State in the Nation on a per capita basis.

TERMINATION OF RED RIVER PROJECT

I am speaking of the fact that the Red River project, which was to be the hope for northwest Louisiana and central Louisiana, has been effectively terminated at Lock and Dam 2. That means it is going to be effectively terminated from Alexandria up. The 8G controversy, when the administration had agreed to 27 percent of a certain fund, the fund was disputed, but the 27 percent was agreed to. Now in this budget, that 27 percent is brought down to 4 percent, which is less than 20 percent of what we believe that Louisiana ought to be entitled to.

STRATEGIC PETROLEUM RESERVE PROGRAM

The strategic petroleum reserve program, voted repeatedly by Congress, and in which some 800 or 900 jobs in my State are involved, has been, again, deferred when actually, it is a rescission; actually, it is a termination of the program, and everybody knows that. But it is deferral on top of deferral, with no plans to go forward. Not to mention agriculture, which is very badly impacted.

UNEQUAL TREATMENT OF STATES BY GRH

Now, if all States were called upon to make the same kind of sacrifice, I might at least understand the logic behind it. But at the same time that the Red River project is being terminated, they are starting a new atomic accelerator in Virginia at a cost of $240 million; starting over $100 million of new water projects out West; they are increasing foreign aid by some 12.5 percent; defense over last year's actual expenditures by 8.6 percent; and many other things in this budget are going up while in my State, which is in really a depression, not a recession, but a depression, 30 banks are probably going under this year.

Were you familiar with that effect upon my State, and if you were not, can you refigure some of these things based upon the difficult position we are in?

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Mr. MILLER. Senator Johnston, certainly, we had no intent to single out Louisiana for adverse treatment, not at all.

VALIDITY OF RED RIVER PROGRAM

In looking at these programs, we made the decisions up on the merits of each. The Red River project, as you know, has been criticized up one side and down the other as generating far more costs than benefits.

Senator JOHNSTON. It says 1.7 to 1 benefit to cost ratio using——

Mr. MILLER. Not the portion that we recommend not funding. And the marginal benefit cost ratio is far below 1, that is, the costs imposed are far greater than the benefits. I would be glad to provide an analysis for the record of that project.

[The information follows:]

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Red River Waterway

On the basis of Army Corps of Engineers and OMB analyses, the Administration has concluded that the Red River Waterway Project is a bad investment. Required outlays of $867M to complete the project would return only $607M. Also, the project has questionable benefits and adverse environmental consequences, as outlined below:

- Project cost data:

  -- Total estimated Federal project cost: $1.6B (1986 dollars)
  -- Percent Complete: 45%
  -- Sunk Costs Through 1986: $715M

- Project benefit-cost ratios are less than unity at the current water project discount rate, and even lower at the 10% cost of capital rate recommended in OMB instructions for analyzing other government investments.

  -- The original project discount rate is outdated, and is no longer appropriate for budgetary decision-making.

  -- At current interest rates, the national economy would receive only 70 cents in benefits for each Federal dollar spent if the project were fully constructed:

  -- Total Project Benefit-Cost Ratios

  1.2:1 at 3-1/4% (1977 discount rate "grandfathered" for the project)

  .6:1 at 8-5/8% (current water project discount rate)

  -- Remaining Benefit/Remaining Cost Ratios

  1.7:1 at 3-1/4%
  .7:1 at 8-5/8%

  -- The .7:1 ratio makes the Red River Waterway one of the least cost-effective Army Corps of Engineers projects now under construction.

- 40% of the project's estimated benefits are not commercial navigation, but instead comprise recreation, bank stabilization, and regional employment benefits.

- Interstate commerce in the project area is already served by two interstate highways, five U.S. highways, three major railroads, and several pipelines, whose users pay a much larger share of the capital and O&M costs of these transportation systems than inland navigation project users, who pay less than 10% under current law.

- The project raises water tables, causing flooding up to 20 miles away. Other environmental damages involve degradation of 48 miles of streams including 13,000 acres of wetlands, and loss or alteration of 40,000 acres of agricultural and forest lands.

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8G ISSUE

Mr. MILLER. On the 8G issue, no, we have talked about that at some length in the context of reconciliation and separately. If you could obtain the willingness of your colleagues to go along with the other changes that the administration wants in the reconciliation package, we want reconciliation, we want savings, but we don't want reconciliation to be simply a vehicle for a lot of additional programs, some of which are spending programs, some of which are programs that cost money in other ways.

EFFECT OF OIL PRICE COLLAPSE

On the SPRO, with the reduction in the imported oil, we have, I understand, as many days, perhaps more, available to offset imports at the 500 million barrels we will top off at, than we would have had at 750 million barrels when SPRO was created, because of the greater dependence on foreign oil at that time.

The recent collapse of oil prices is evidence that the cartel itself cannot hold together, and that is good evidence that we won't need SPRO.

Senator JOHNSTON. Are you aware that the Energy Administration has projected a more than doubling of oil imports between now and 1995?

Mr. MILLER. The question is what the relevant prices are. I understand that there is an expectation that there will be some increases in imported oil, but this was arguable before the recent price change.

Senator JOHNSTON. I know, but the lower the price, the greater the dependence, according to IEA.

Mr. MILLER. Well, I haven't looked at those figures. I would be glad to respond in the record.

[The information follows:]

PETROLEUM STOCKPILE SIZE AND THE OIL IMPORT LEVEL

U.S. oil import projections prepared by the Energy Information Administration [EIA] indicate that reductions in oil prices could stimulate oil imports during the 1990's.

However, it should be noted that such projections are uncertain. Historically, EIA—as well as other experts—have overestimated import levels. Projections involve substantial economic, oil market and technological uncertainty. It would be a mistake to assume current projections are more reliable than projections have been in the past.

In addition and importantly, the level of U.S. oil imports is only a rough indicator of U.S. energy security and the desirability of further oil fill for the Strategic Petroleum Reserve [SPR]. Other factors need to be taken into account in deciding on the appropriate level of SPR fill. They include where the oil is coming from, the prospects for stability in those areas, the level of private inventories, the level of stocks built up by other countries, and so forth.

The administration intends to monitor all relevant factors in assessing the appropriate SPR level. For the reasons outlined above, however, we think it would be a mistake to tie it mechanically to projected levels of U.S. oil imports.

AGRICULTURE SUBSIDIES PROGRAM

As for agriculture, this administration, the President, signed an agriculture bill giving far and away the greatest subsidies to the agriculture industry of any administration in history. I participated in the negotiations over that bill last Christmas. The bill gives $52 billion in subsidies, over $52 billion in subsidies over a 3-year period.

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The budget the President has sent up, while it does make some changes in agriculture, does not go back on that basic CCC $52 billion subsidy program. There are some monies that are transferred from 1987 to 1986, but that was mandated, as you know, in the farm bill itself.

TERMINATION OF RED RIVER PROJECT

Senator JOHNSTON. Getting back to the Red River, project is it the intention of the administration to terminate that project?

Mr. MILLER. Well, within the discretion that we have, the answer is yes.

ATOMIC ACCELERATOR IN VIRGINIA

Senator JOHNSTON. What is the benefit-to-cost ratio of the atomic accelerator in Virginia?

Mr. MILLER. I will have to give you that information. I don't have it at my fingertips.

[The information follows:]

ATOMIC ACCELERATOR IN VIRGINIA

The Department of Energy is proposing to initiate construction of a Continuous Beam Accelerator in Newport News, VA, in the 1987 budget. The new facility will require $236 million for construction in actual year dollars. Nuclear physics experiments are planned to begin in 1992. According to DOE, this unique facility will allow physicists for the first time to explore areas of nuclear physics that are impossible to probe with existing facilities. Both DOE and its Nuclear Science Advisory Committee have placed highest priority on this new basic research project.

Although it is not possible to attribute a dollar value to the output of basic research or of specific scientific facilities, the U.S. Government has long recognized the benefits that accrue to society by the support of such research and such facilities. Thus we can say that while the cost of the proposed accelerator is $236 million, the benefits are, over time, potentially large, albeit not quantifiable.

TERMINATION OF PROGRAMS

Senator JOHNSTON. Are you planning on terminating all? By the way, the Corps of Engineers says it has a 1.7 to 1 benefit cost ratio using, I think it is the 3.2 percent. Are you doing all your projects like that or just selectively?

Mr. MILLER. No, what we did was surveyed them and chose them on the basis of marginal cost-benefit ratio, making some judgments about the amounts that were needed, although there were some exceptions because of one thing or another. Basically, it was anything that failed the benefit-cost test. We simply, in a time of fiscal stringency, can't go forward with it.

Senator JOHNSTON. I would suggest to you that this is highly selective. I would suggest to you there are no provable benefits to this accelerator in Virginia. Oh, you can conjure up some, but you certainly can't prove them. I don't know whether you have any for these new water project starts, these $100 million worth of new project starts.

But I can tell you, it appears to us that it is highly selective, highly discriminatory. All I can say is I am glad that Louisiana went strongly for Reagan twice. I would hate to see what you would do to us if we hadn't.

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[Laughter.]

Mr. MILLER. Well, you know, it is interesting, Senator, what I find myself in sometimes. We try to pick these things on the merits. People say we are not politically realistic. Then on the other hand, if you start picking things on the basis of political realism—and as we have just had a colloquy, that is not the reason here—you get accused of being discriminatory and not basing choices on the merits. So it is hard to please everybody.

MERITS OF RED RIVER PROJECT

Senator JOHNSTON. As I say, there is a real depression in Louisiana. How would you think that I ought to explain to those people that we are terminating this project which has gone on administration after administration? They have all looked at it. The Corps of Engineers this year looked at it and recommended, set its 1.7 to 1 cost benefit radio and recommended funding Lock and Dam number 3. How would you suggest that I explain to my people that, "Well, we don't have the money for that, but we have money to increase foreign aid by 12.5 percent; to add another almost 1,000 employees to the foreign aid; to be sending billions of dollars to Egypt and other countries."

Do you understand what I am saying?

INCREASED FUNDING FOR FOREIGN EMBASSIES

Mr. MILLER. Oh, I understand, and I understand the political sensitivity about the foreign aid. A good portion of that foreign aid money is for embassy security to avoid the kind of attacks on our embassies that we had in Lebanon, for example.

Senator JOHNSTON. Of over 850 new employees, only 147 are for embassy security, if I understand that.

Mr. MILLER. Some of the monies, a good chunk of the monies.

Senator DOMENICI. Would the Senator yield for a clarification?

Senator JOHNSTON. Yes. Yes.

OFFSHORE LEASING PROGRAM

Senator DOMENICI. Mr. Miller, the Senator from Louisiana talks about the offshore leasing programs settlement, the so-called 8G. Who do we settle with? Who do we talk with? He is the chief negotiator over here. Did somebody talk to him about a settlement?

Mr. MILLER. Yes, we have. We have had some discussions.

Senator JOHNSTON. I talked to your man over a month ago, and then said, "You know, here's my position. I would love to talk about it" and nobody has been there to talk to.

Mr. MILLER. We have indicated, Senator, very clearly, I think, our concerns over the 8G settlement. When we talked about——

Senator JOHNSTON. The concern is, you just don't want us to have it.

Mr. MILLER. No, we have agreed to certain amounts of monies.

Senator JOHNSTON. Not with me.

Mr. MILLER. Senator, I have sent up letter after letter after letter indicating what the administration's position on 8G is. We have talked

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briefly. Secretary Hodel, I understand, has talked with you, Randy Davis has talked with your people.

Senator JOHNSTON. I talked to Randy Davis; I talked to Secretary Hodel. My opinion——

Mr. MILLER. I hope we can reach some kind of accomodation, but we are simply not going to allow a raid on the Federal treasury in the nature of 8G.

Senator JOHNSTON. What is your position? You say you have stated time and again what that position is. What is it? I mean, your budget says 4 percent.

Mr. MILLER. Basically, on 8G, the components are this: The so-called Buy America program, while it has a nice ring to it, is going to cost enormous amounts.

Senator JOHNSTON. That is not part.

Mr. MILLER. We are against that. We are also against the States going back and taking pre-1978 money. We are also against the provision of the 8G-type provision connected with 8G that would strap the Secretary's hands and the discretion he has with respect to offshore leasing.

If we can reach an agreement, if you will accept those provisions, I think we can have an 8G settlement without very much trouble at all. My understanding is your position is——

Senator JOHNSTON. The problem is not with me on those elements, but most of those are not in the 8G. The Buy American, those other things are not in 8G.

My time is up. Thank you.

Mr. MILLER. Thank you.

Chairman HATFIELD. Senator Domenici has two brief questions he would like to ask before he has to leave for a 3 o'clock meeting. Senator Weicker has graciously yielded him that position for those questions.

Senator DOMENICI. Thank you, Mr. Chairman; thank you, Senator Weicker.

NINE PROGRAMS TABBED FOR ELIMINATION

I have just two questions. Is it correct that there are nine programs, and I understand some are very small, some are medium-sized, et cetera, that are proposed for termination in your budget and that if they are eliminated, the total outlay savings would be $2.3 billion in 1987 and for the whole 3 years, $9 billion?

Mr. MILLER. Those numbers sound right, Senator.

QUESTION ON DEFENSE GRAPH

Senator DOMENICI. You do a good job on those graphs, and I compliment you on your presentation. I wonder if you wouldn't want to acknowledge that there is one thing about the defense graph that is somewhat misleading.

Mr. MILLER. Thanks.

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Senator DOMENICI. Isn't there a rather deceptive number and line on Carter's defense budget in your chart?

Mr. MILLER. I described it accurately. I mean, it is nominal terms, but I think your follow-on point is that President Carter assumed a much higher rate of inflation than actually materialized, so in real terms, the line would be lower.

Senator DOMENICI. Frankly, Mr. Chairman, the Carter administration assumed substantially higher inflation—in the 13 to 14 percent range versus 4 percent—assumed much higher energy prices over the 5 years than we are experiencing, and assumed substantially higher cost overruns which have had a history in the double digits, and we are down to one now.

But those assumptions would change those lines dramatically by way of comparing defense then to defense now, would it not?

Mr. MILLER. It would make a change, yes, sir, you are right.

Senator DOMENICI. It would?

Mr. MILLER. It would.

FACTORING OF INFLATION RATE

Chairman HATFIELD. Could you supply for the committee the factoring in of the same inflation rate in real dollars for the use of the committee?

Mr. MILLER. I will be glad to do it. It appears the savings of the basline for the major terminations are $8 billion in 1987 and $11 billion in 1988. They are more than the $3 billion.

[The information follows:]

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Defense Budget Levels

The following table compares the nominal DoD-military Budget Authority levels for the proposed Carter January 1981 budget and the actual outcome.

DoD-Military Budget Authority
(Nominal Dollars in Billions)

	Actual 1980	1981	1982	1983	1984	1985	1986
Carter (Jan. 1981)	142.6	170.3	195.7	223.3	252.4	283.6	317.7
Actual Outcome	142.6	178.4	213.8	239.5	253.2	286.8	278.4

The next table shows the proposed January 1981 Carter program repriced in constant 1987 dollars at today's inflation rates. This provides Carter's intended real growth levels as compared to the actual outcome (also in constant 1987 dollars.)

DoD-Military Budget Authority
in Constant 1987 Dollars
($ Billions)

	Actual 1980	1981	1982	1983	1984	1985	1986
Carter Jan. 1981 Proposal	200.4	216.1	227.9	239.3	251.3	263.9	277.1
(% Real Growth)		(7.8)	(5.5)	(5.0)	(5.0)	(5.0)	(5.0)
Actual Outcome	200.4	225.5	252.8	271.9	284.8	305.8	288.0
(% Real Growth)		(12.5)	(12.1)	(7.5)	(4.8)	(7.4)	(-5.8)

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Senator DOMENICI. No, no. I said elimination of ineffective, duplicative or unnecessary programs, as you have categorized them.

Mr. MILLER. Oh, in the major policy initiatives book.

Senator DOMENICI. Right. The sum total is $2.3, according to ours.

Mr. MILLER. But that is not the full nine.

Senator DOMENICI. That is how many, then?

Mr. MILLER. That is, however, many are in this book. There are only nine there, those nine programs.

Senator DOMENICI. Those nine that are on that list equal the $2.3?

Mr. MILLER. That is right.

Senator DOMENICI. I thank you.

Chairman HATFIELD. The Senator from Connecticut?

Senator WEICKER. Thank you very much, Mr. Chairman.

ACTUAL MONEY SAVINGS FROM FISCAL 1987 CUTS

Mr. Miller, would you agree that a dollar saved or a dollar eliminated in the fiscal year 1987 budget in truth has as its consequence an additional, let's say, $10 outlay in fiscal 1988 and is really not money saved at all? Would you agree with that?

Mr. MILLER. Your marginal rate of time preference would have to be extraordinarily high for it to be a savings, so the answer is yes, you are correct in your assumption.

TEENAGE PREGNANCIES

Senator WEICKER. I was reminded of this fact when I read, in this morning's Post, teenage pregnancies cost the welfare system $16 billion in 1985, and I suppose the reason that had a special impact on me was as chairman of the appropriations subcommittee that handles family planning moneys, I have seen the administration cut back over the last several years in that area. Now, all of a sudden, the bill comes due.

How about the fact that you reduce the community health funding in this year's budget, for community health centers?

Mr. MILLER. I don't know the details.

LOW BIRTH WEIGHT COSTS

Senator WEICKER. I believe you do, aside from the fact that it is estimated that such cuts will result in approximately 1,200 unnecessary deaths. Fifty percent of which will be babies.

Mr. MILLER. Did we make that estimate?

Senator WEICKER. No, that is the report I get.

Mr. MILLER. I see.

Senator WEICKER. Do you have any idea of what the medical cost is of a low birth weight baby as compared to a healthy baby?

Mr. MILLER. Well, it is not just the cost. It is the terrible tragedy of a child that——

Senator WEICKER. I agree, but I gave up on the humanity of this administration a long time ago, so we will just keep it to a fiscal basis.

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Mr. MILLER. You shouldn't have, Mr. Weicker.

Senator WEICKER. The cost is staggering. The fact is, the increase in low birth weight babies can be directly related to the various cuts that have been proposed in the community health centers.

CUTS IN VOCATIONAL AND REHABILITATION FUNDING

This budget cuts funding for vocational and rehabilitation by more than $100 million. That is going to result in the elimination of services for approximately 87,000 disabled adults. Do you figure there is any savings as far as those 87,000 are concerned, sitting at home, getting whatever Federal benefits there are, as compared to being taxpayers earning their own way?

Mr. MILLER. Well, it is very important that people have an opportunity to contribute in society, and one needs to look at a program and decide whether it is cost effective. That is the best way to get people out of their homes and on the payrolls.

Senator WEICKER. Funds for the education of the handicapped are cut about $100 million in this budget. Again, it is clearly proven that special education results in the handicapped population not being institutionalized, but rather, being able to get into the mainstream of life and being able to become citizens that earn their way and pay their taxes.

The point that I am trying to make is that I could go on and on with examples but the fact is, there's a terrible outyear cost to be paid, and I think the American taxpayer should be made aware of it.

When you put together your budget, do you calculate the outyear cost of these programs as compared to the moneys that you are cutting for this particular fiscal year? You do?

Mr. MILLER. Yes. We try to. Obviously, we are not going to do things that are silly, you know, the example that you posed earlier of saving a dollar a day and incurring $8 later. So we do take those kinds of things into consideration.

Senator WEICKER. Well, I have cited the community health centers; I have cited the handicapped; I have cited vocational rehabilitation. You wouldn't categorize these as welfare programs, would you?

Mr. MILLER. No.

COST EFFECTIVENESS OF SOME PROGRAMS

Senator WEICKER. No. Do you have some figures that indicate a substantial decrease in the population which would be served by the programs I have mentioned? Is that the basis for the cuts in funding?

Mr. MILLER. No, some of them because the programs are not very cost effective, and in other instances, we believe it might be a State or local responsibility. I'll be glad to give you in writing some additional evaluations of the three programs that you have just mentioned and our reasons for making, suggesting the changes that we did.

[The information follows:]

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Primary Care Block Grant

Community Health Centers (CHC) provide prevention oriented primary-care services to medically underserved populations. Included among its services is prenatal care, which, evidence suggests, reduces the incidence of low birthweight. Most CHCs are independent operations run by local community boards with only 51% of their funds coming from the Federal government.

The President's budget proposes expanding the primary care block grant which provides grants to States for the operation of CHCs to include narrow categorical programs for black lung clinics, migrant heatlh and family planning. Consistent with the Administration's emphasis on federalism, the proposal would allow States more opportunity and flexibility in coordinating and improving the effectiveness of primary care health services. The failure of pregnant mothers and newborns to receive the full range of available health services has been identified as one of the factors contributing to infant deaths and low birthweight. The expanded block grant would enhance State capacity to integrate these services. The block grant would also permit States to streamline program administration because unnecessary Federal regulatory, legal and reporting requirements previously imposed on grantees would no longer apply. More funds could be spent on primary care health services rather than meeting burdensome Federal requirements.

March 3, 1986

Basis of Reductions in Community Health Centers, Education for the Handicapped, and Vocational Rehabilitation

[HIMD to provide answer on Community Health Centers]

Education for the Handicapped and Vocational Rehabilitation

The request for these programs is consistent with and arose out of a general 1987 budget policy that no program should be fully immune from the overall need to restrain spending to help reduce the deficit. In general, the request for these activities proposes to remove the large unrequested increases added in 1986, returning most programs to their 1985 levels.

Reductions below the 1985 level are requested in selected activities in which States and localities are taking greater responsibility, Federal programs are duplicative and overlapping, or there is no sound rationale for the current level of Federal spending. Examples follow:

Education for the Handicapped:

Deaf-blind program

Since 1983, States have assumed responsibility for most direct service provision that was previously carried out by this program. Program emphasis has shifted to less costly technical assistance and demonstration programs. Federal resources should be reduced consistent with reduced Federal role.

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Personnel training

States and localities are primarily responsibile for obtaining and maintaining qualified teaching and support personnel. The Federal government should only intervene in the market to attempt to influence supply when it is clear that personnel shortages exist and that Federal activity can ameliorate those shortages. It is not at all clear that training programs supported by this activity affect shortages (for example, shortages in rural areas). Available data on shortages do not support the current level of funding. In addition, States already use other Federal funds, the Part B State grant "setaside" resources, for general personnel improvement activities.

Vocational Rehabilitation Services:

Independent living

The three independent living authorities, two of which have had unrequested appropriations initiated since 1985, are overlapping and duplicative. The budget proposes funding for a single independent living activity -- the centers. Activities supported by the other two authorities (the State grant and the special program for older blind persons) are and can continue to be supported by the centers.

Personnel training

The budget proposes not to make new awards in the long-term training area absent evidence they can alleviate real shortages. The Education Department is working to develop relevant data. The current resource level is arbitrary.

AIDS FUNDING RESCISSIONS

Senator WEICKER. I noticed that in your budget, you propose rescissions in the funding for AIDS, even though over 3,000 new cases of AIDS were reported in just the last 6 months. How did you arrive at these rescission proposals?

AIDS FUNDING

Mr. MILLER. Well, AIDS is a high priority for us. We increased the funding over the 1986 level for AIDS. However, we put in the budget an amount for AIDS that the people who are engaged in AIDS research say that they can responsibly spend. We are not going to put in the budget more than they can responsibly spend.

We did propose, also, rescinding moneys for Federal AIDS centers. We believe that the provision of treatment for AIDS and the caring for AIDS victims to be a local or a State responsibility, that the Federal Government should focus its resources on searching for a cure for AIDS or some way of treating AIDS.

Senator WEICKER. I don't think that anybody is more familiar with the AIDS problem than the Senator from New York, my colleague to my right. He and I track it very carefully. I think we have all been under a great deal of pressure, I might add, to give more money when, indeed, we tried to tailor the money appropriated to exactly what has been requested by the National Institutes of Health; by the Centers for Disease Control; and by various localities.

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As of February 10, these are the recent figures: The Centers for Disease Control reported 17,361 known cases of AIDS, with 9,112 reported deaths. This is an increase of 3,959 cases in just 6 months' time. Yet, you are rescinding research for vaccine development funding; $16 million in medical care delivery projects, and $2 million for an information hotline.

How do you explain it?

LOCAL AND STATE RESPONSIBILITY FOR AIDS SERVICES

Mr. MILLER. The cities and localities have education, they have hot lines. Again, the treatment center, we do not believe, it is a Federal responsibility to provide for the care, the direct care of AIDS victims. As I said, our efforts should be focused on research to find a cure for AIDS.

REDUCTIONS AT NIH

Senator WEICKER. All right. Let's come at it from a different angle. Let's look at the National Institutes of Health. You propose reducing the number of new grants and cutting the National Institutes of Health budget by more than $400 million. Your budget reduces new grants by about 1,000; it reduces the number of trainees by 700, and it reduces the number of congressionally mandated employees by 850. It also zeroes out innovative basic research programs. You say you are not responsible for anything but research. I don't agree with that but how do you justify these cuts in research?

Mr. MILLER. Are you talking about National Institutes of Health research on AIDS or generally?

Senator WEICKER. I am talking about the proposed cut for the entire National Institutes of Health, and in the usual, knowledgeable way that OMB approaches this, we can just go right across the board with the cut regardless of the import or the priority of the project.

Clearly, if we do that, AIDS research, in its various forms and throughout the Institutes of Health, there are at least three of the institutes responsibile for AIDS research, is going to suffer.

I am trying to put this on your basis. You said we are not responsible as a Federal Government for the housing or taking care of AIDS victims. That is a local responsibility. And, you say, we are not responsible for the hot lines. However, while we are always responsible for the vaccine, you are cutting the budgets for those responsible for developing a vaccine.

ADMINISTRATION RECOMMENDATIONS FOR AIDS FUNDING INCREASES

Mr. MILLER. Let me say, if you are looking at biomedical research funding, we propose to fund 18,000 research grants a year; we plan to lower some of the overhead going to universities for some of these research grants. We propose increasing the amount of funding, average funding for these research grants in biomedical research.

With respect to AIDS, we are coordinating the AIDS research and putting it in a single unit over in the HHS. The spending in HHS on

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AIDS research has increased from $6 million in 1982 to $213 million requested in the President's 1987 budget. I hardly see that this as neglecting the AIDS matter.

My understanding is that we have funded all of the requests that we received from the various divisions of HHS that are engaged in AIDS research.

HEALTH CARE FINANCING

Senator WEICKER. Let me return, then, to my original point, as my first round of questioning draws to an end. Are you familiar with the Health Care Financing Administration's estimate of the cost of the Nation's disease to the Nation's economy?

Mr. MILLER. Well, I don't have those numbers.

Senator WEICKER. Four hundred billion dollars a year, $400 billion. This gets back to the point I made about the out-year costs of the dollars cut today.

The tab is $400 billion, and at this particular moment in time, you seek to cut back on the funding for biomedical research and money going to research in AIDS.

Mr. MILLER. I would be glad to analyze the specific estimates that you are talking about and make some comment on them. A good deal of health-related problems have very little to do with research, the biomedical research.

[The information follows:]

NATIONAL HEALTH EXPENDITURES AND HEALTH RESEARCH

According to the Health Care Financing Administration, national health expenditures totaled $387.4 billion in calendar year 1984. Of this, support for health-related research and development totaled an estimated $11.5 billion, with Federal support exceeding $6 billion.

The relationship between funding for health-related research and development [R&D] and the level of direct national health care expenditures is not well understood. On the one hand, it is recognized that some medical advances—such as the discovery of the polio vaccine—have demonstrably reduced direct health care expenditures. On the other hand, and quoting from an article in the summer 1984 issue of Health Care Financing Review:

"... medical advances leading to decline in the incidence of heart disease may also lengthen the period of survival for those who do develop heart disease. The net effect may be an increase in the prevalence and the amount of medical care to be provided for heart disease. Similarly, changes in the treatment of heart disease may be beneficial to the patient but may also increase expenditures per case."

Given the mixed effects of health-related R&D on direct health care expenditures, Federal support for such R&D cannot be based on the assumption that increased research leads to reduced health care expenditures. In fact, the President's proposal to support a stable, strong, and sustainable program of federally funded health-related R&D is designed primarily to improve the health of the American people.

MEDICAL EVALUATION OF PRIORITY FUNDING

Senator WEICKER. I would have to make one more comment, Mr. Chairman. My problem, of course, is that, year after year, these cuts have been proposed, and again, they are proposed this year. All the experts in the health field testify before my appropriations subcommittee as to the need for particular funding and they testify as to the priorities

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for funding them. Yet when I ask them, "Why do you request the level of funding you do?" I am told, "Well, it has nothing to do with priority; it has nothing to do with the medical evaluation. It has to do with the figure that is put in there by OMB."

I think I am going to be confronted again with this, this year. Indeed, we proposed budget figures fly totally in the face of what is needed. There is nothing more pressing than the AIDS problem right now, and OMB seeks to cut the budget. It is incredible. The AIDS budget was not put together by a bunch of politicians. That budget was strictly constructed by information given to us by NIH and by the private sector.

Chairman HATFIELD. Thank you, Senator.

The Senator from Vermont.

Senator LEAHY. Thank you, Mr. Chairman.

CONSTITUTIONALITY OF GRH SEQUESTER PORTION

Mr. Miller, I understand that the administration agrees with the court's decision that the Gramm-Rudman-Hollings sequester portion is unconstitutional; is that correct?

Mr. MILLER. The part written involving the comptroller general is unconstitutional, in our judgment. Therefore, the fall-back position would have to be taken, a simple joint resolution.

Senator LEAHY. Is the administration still committed to reducing the deficit in fiscal year 1986 as required by Gramm-Rudman-Hollings?

Mr. MILLER. Yes.

ALTERNATIVE PLAN FOR DEFICIT REDUCTION

Senator LEAHY. Are we going to get a constitutional alternative plan for reducing the deficit in fiscal year 1986?

Mr. MILLER. Of course, pursuant to the Gramm-Rudman-Hollings Act, the lower courts, the special three-judge panel is held in abeyance until the Supreme Court has an opportunity to hear it on appeal and decide. It would be only after that decision would we have to go forward.

Senator LEAHY. Isn't that begging the question a little bit? Because you have held the position that it is unconstitutional. The President, when he signed the bill, said it is unconstitutional. The court says it is unconstitutional. Is it a little bit out of the picture now to wait for the Supreme Court? Why not submit, based within the constitutional rulings of the lower court, why not submit a budget that would be lower, according to the Gramm-Rudman-Hollings numbers?

Mr. MILLER. A budget, sir? I don't understand. We already have a sequester order that the President has issued. The President has done everything that, in his power, would be required.

The second reason, of course, is that the Supreme Court may stay the effective date or will make effective the date of its order for 1987, not undoing the situation for 1986.

It would only be if the Supreme Court issued an order finding null and void the President's sequester order pursuant to the Comptroller

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General's reports would there be a need for a joint resolution, and the President would look forward to signing such a joint resolution.

Senator LEAHY. Otherwise, you would go by the arbitrary cuts?

Mr. MILLER. We would continue going by the arbitrary cuts, yes, so-called arbitrary cuts.

HIRING OF DRUG ENFORCEMENT AGENTS

Senator LEAHY. So you would support such things in fiscal year 1986, arbitrary cuts that would prevent the hiring of, I believe, it is 800 drug enforcement agents?

Mr. MILLER. I don't know the—I can't confirm those figures, but it was perfectly obvious to us that Congress intended for there to be this $11.7 billion sequester in fiscal 1986, and there was very little opportunity for proposing a different method of securing those reductions, and when we got into it, it was our judgment that those reductions, those across-the-board reductions, reductions in the neighborhood of $11.7 billion in outlays for 1986, could be accomodated without great disruption.

ARBITRARY ACROSS-THE-BOARD CUTS

Senator LEAHY. But wouldn't you rather have legislative cuts that have been negotiated between the administration and the Congress, if they could not come up with the same numbers, rather than just arbitrary, across-the-board cuts?

Mr. MILLER. If I could write what those cuts would be, I would much prefer that solution, but we have seen little evidence and little interest on the part of Congress in doing that.

Senator LEAHY. Are you willing to put on the table a plan doing that rather than having the arbitrary cuts?

Mr. MILLER. At this point, no, because we think it would be a futile attempt.

Senator LEAHY. Senator Johnston and I proposed a plan which has now been co-sponsored by a number of people. A number of people on the other side of the aisle have put in virtually the same thing.

You have seen those, I am sure.

Mr. MILLER. I have not had an opportunity to review the plan.

Senator LEAHY. We will send it down again.

Mr. MILLER. Please do.

Senator LEAHY. But, there is a willingness, at least by a bipartisan number of people, many on this committee, to do that rather than have the arbitrary cuts. Are you saying that the administration is not in a position to do that, that it would be easier to go with the arbitrary cuts?

Mr. MILLER. Well, certainly. Let's put it on the table. There are types of cuts that we would find more repulsive than the arbitrary cuts. I haven't seen your proposed set of cuts.

If there were a possibility of a more tailored, more rational set of cuts, we would certainly be anxious to look at those.

But keep in mind, we are a way into the fiscal year right now, and people have already made plans, so one of the costs of changing it would be the disruption costs.

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EFFECT OF ARBITRARY CUTS

Senator LEAHY. Let me tell you what the arbitrary cuts would do. Customs would be prohibited from hiring 800 new drug enforcement agents, at the same time that cocaine use is going up in a totally unprecedented way. The FAA would be cut by $123 million, and this is a time where you are reading horror stories in the paper about near-midair collisions; 2,000 fewer homes would be weatherized; the Department of Agriculture makes 1,700 fewer disaster loans; 2,300 fewer families in rural parts of the country will receive loans from the Farmers Home Administration; 200,000 needy children would not be accepted into compensatory education programs and on and on.

We have proposed plans, and you can get the same kind of deficit reductions, but without these sorts of arbitrary cuts. It would seem to me that what has come out here in a number of questions is that we have a possibility of having arbitrary cuts or actually making cuts that are sensible. Senator Weicker has pointed out the fact that the cuts, as you select, you can either make selective cuts that will save you money in the long run, or we will have arbitrary cuts that can cause more damage than they save.

Mr. MILLER. If you will recall my participation in the negotiations over the Gramm-Rudman sequester for 1986, we were trying to find some way that we could avoid a sequester, so that we could have a rational set of cuts.

RECONCILIATION

Senator LEAHY. But the administration opposed the plan that the Senate was willing to vote on in December. The administration opposed the plan that would have actually, following a great deal of negotiations on both parties, would have actually got a reduction in deficits, and the administration opposed it, so it never came to a vote.

Mr. MILLER. I will make two points in that regard. First of all, the savings that—I presume you are talking about reconciliation?

Senator LEAHY. Yes, I am.

Mr. MILLER. The so-called savings in reconciliation, in our judgment, were a small fraction of the savings that were claimed in exchange for that, that we would be buying some very bad policy in our judgment. And the second is, even accepting the estimates, the very large estimates, and, I do believe, inflated estimates of the savings involved, they would have done nothing to avoid the sequester. The reason is our estimate of the deficit was $220 billion, and as you know, Senator, we would have had to have estimated $192 billion in deficit or below for there to have been any reduction whatsoever in the sequester.

So the difference between $192 and $220 is far more than the 1986 savings estimated in reconciliation. That is relevant.

DESIRE FOR BALANCED BUDGET

Senator LEAHY. In talking about estimates and where the claims are, let's go back to one claim that has been made. I have heard, in virtually every state of the Union message for the last 6 years, the desire of the administration to have a balanced budget.

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I also want to have a balanced budget. I know what these deficits are doing to my own State of Vermont, and they have been horrendous up there. I will ask you the same question I asked Secretary Baker and I asked Mr. Stockman.

Was there anything, when the President submitted his first budget in 1981, that stopped him legally from submitting a balanced budget in 1981? Was there anything that legally stopped him from submitting a balanced budget?

Mr. MILLER. Well, there's nothing legally that restrains the President from submitting a budget for zero expenditures in the extreme, but the point is the President has to submit a budget that has some credibility and has some possibility of passing.

Senator LEAHY. Well, no. Wait a minute. The President has been saying every single year, "We want a balanced budget," and that is a matter of credibility, too. But I understand from your answer, there is nothing to stop the President, legally. There is no requirement for a constitutional amendment or anything else, nothing to stop the President legally from submitting a balanced budget in 1981, 1982, 1983, 1984, 1985, 1986, 1987 or beyond. We didn't need a constitutional amendment to require him to do that, did we?

Mr. MILLER. No, although they are a derivitive of some constitutional responsibilities. It would be the kind of subject that law professors have a seminar on all afternoon, whether he could constitutionally submit a budget that was, say, at an arbitrary zero level or even, in some kind, at a balanced budget level.

LINE ITEM VETO

Senator LEAHY. Of course he could have submitted one. It doesn't mean that Congress is going to accept it or not, but there is nothing that would have stopped him from doing it. Every year, we have heard, "Please give me line item veto and give me a constitutional amendment," but then I wait for the next part. I say, the next line is going to be in the meantime, the call of the Congress is blocked for, the call for the American people is blocked, whatever. Here is a balanced budget, and we never see it.

Mr. MILLER. Let me say two things. One, the deficits that we have run, the President has never spent a penny that hasn't been appropriated first by Congress. The second point is if you provide——

Senator LEAHY. Let me tell you about that. Each Congress, the Congress has passed a budget with less spending in it than what the President has requested ever since the President has been in office.

Mr. MILLER. If you look at certain appropriations, measures, actually, on some occasions, the total amount appropriated was less than what the President asked for. In some cases it was in excess. It has not necessarily followed the priorities the President has set forth.

But it is important to keep in mind that the President is in a box. If he submitted a budget that contained all the changes that he would like to see there, the outcry from Congress and the special interests would be so loud that there would be representation that it was not only dead

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before arrival, it never would have been born. So there has to be some relevant range of reasonableness in which the President submits a budget, and he has done that year after year. If you will recall, his budgets have anticipated a falling deficit over a period of time.

Senator LEAHY. That was a waste of anticipation. That was a misplaced anticipation. I mean, the President, I think you and the President and everybody else sent the budget up expecting it to be dead on arrival. I think what you're kind of concerned about is we may have a wake and view the body in the meantime. That is the difference.

SINCERITY BY CONGRESS IN REDUCING DEFICITS

Seriously, I have never seen, as I have in the past year, more of an interest to get Republicans and Democrats to get together to bring these deficits down.

That interest has been here all the way through, but I have not, I have not seen a willingness within the administration to sit down and seriously, seriously talk about doing it. I don't doubt the President's sincerity to want to get deficits down. But you can't just simply give a speech and say, "Let's have them come down," any more than we can up here.

Mr. MILLER. Senator Leahy, the President has provided the leadership by producing a budget for you that meets the Gramm-Rudman targets that were agreed upon overwhelmingly and passed by the Congress.

Senator LEAHY. My time is up, Mr. Miller.

Senator D'AMATO [presiding]. We will move on.

SHORTCOMINGS IN ADMINISTRATION BUDGET

Mr. Miller, it is good to see you. I don't know who is going to be saved first, you or I, but the chairman will be back, and I will have to go down and vote. So he will save one of us.

Let me state to you that I voted for Gramm-Rudman. I voted for budget reduction. I think they are absolutely essential. Having said that, I didn't vote for this budget document. I think that I would be remiss if I said I was going to support it in its present state.

I think that the cuts that we see are disproportionate in area after area as it relates particularly to big cities and urban centers, and I am rather annoyed and outraged by it. I think in certain senses, it displays a shocking lack of sensitivity for the needs of people, and it is almost a slap-in-the-face type of an approach.

I am wondering why we can say that senior citizen housing, 202 housing, should be eliminated. That is what we do while, at the same time, we talk about the crying need for housing for the poor, particularly for our seniors. It is a rather modest cost to invest maybe an 11,000 or 12,000 units annually. If this country can't do that, then I think our priorities are misdirected.

While I support cutting, I don't in terms of the disproportionate cuts that achieve, in terms of the total, almost no real budget savings. I don't think that is what those of us who voted for Gramm-Rudman are talk-

ing about, as we relate to the new budget. I would also say there is quite a bit of demagoguery on the part of the media, a deliberate attempt, many times, to misconstrue those of us who voted for a balanced budget approach over the next 5 years. They are deliberately suggesting that because we have supported that approach, which spans the next 5 years to balance the budget, that somehow we support this document, because I don't.

PROGRAM CUTS

I don't support the total elimination of UDAG. If you want to say that maybe you should be reduced and that you should share in reductions, fine. I don't support, and I don't think many of my colleagues would go along with supporting, the kind of drastic cut in mass transit that your budget puts forth. It is disproportionate to our cities. Nor do I suggest that the drastic and vicious cuts in the community development block grants can be defended, or the cuts in educational programs can be defended, or the cuts in the AIDS program or the elimination of Amtrack can be defended. I just think that we'll see over and over that those cuts are disproportionate in these areas that are designed particularly to give aid and assistance to our urban centers. I am for budget reduction, but I don't see everybody sharing in those deficits.

BUDGET CUTS IN URBAN CENTERS

I want to say to you, Jim, as I see it, it is aimed at the urban centers, in particular, with little regard, except a lot of rhetoric, about what translates and what happens to those people. So my constituents would be harmed adversely. I intend to vote for some cuts, even in those programs that I believe are important, because all too often, people say, "Yes, cut the deficit, but not my favorite program."

Well, where is the sharing? It is not here, and I submit to you that I am deeply disappointed as a result of that.

Let me suggest to you that I think it's about time that we shook up Treasury and the nameless-faced gnomes in the bowels over there who come out with one program after another.

TAX AMNESTY PROGRAM

You have an opportunity to raise $15, $20 million with the tax amnesty program, and that doesn't mean people will not have to pay their taxes thereafter. I think we should consider the duration of these taxes so that we will not have to come into some of these cuts that are extraordinary, extraordinarily difficult, and impact far beyond the savings that will accrue.

So, I am for equalizing, sharing that burden. I don't see it. Again, I voted for every major weapon system. I continue to support a strong national defense, but you can't come to the American people and ask for the elimination of some of these vital programs, on one hand, and then come forward with an 8-percent increase on the other. It just doesn't wash.

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The chairman has saved me or saved you. You may want to reply. He is saved, and I have got to go down and vote.

Thank you, Mr. Chairman.

Chairman HATFIELD. Thank you, Senator.

The Senator from Georgia is recognized.

Senator MATTINGLY. Too bad I am here, Jim. I would just like to——

Chairman HATFIELD. You are not required to take the full 10 minutes.

PREPARED STATEMENT AND CORRESPONDENCE

Senator MATTINGLY. Probably not the full 10 minutes, but seeing as the Director from OMB is from Georgia, I will take probably 9½ minutes. I want to welcome you once again. I do have some questions for the record which you can reply to in writing. I also have a statement I would like to put in the record.

Chairman HATFIELD. Without objection, it is so ordered.

Senator MATTINGLY. Also, a letter from one of the mayors from Georgia which I think is interesting and should be read.

Chairman HATFIELD. Do you wish that included in the record too, Senator?

Senator MATTINGLY. Yes, thank you, Mr. Chairman.

[The information follows:]

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PREPARED STATEMENT OF HON. MACK MATTINGLY

U.S. SENATOR FROM GEORGIA

Mr. Chairman, I want to take this opportunity to welcome my fellow Georgian, Jim Miller, to this committee. Jim is doing a great job in what is one of the most challenging positions in Federal Government. In general, I am supportive of the President's efforts to cut spending and work towards a balanced budget. I believe we must take the necessary steps to reduce this massive deficit—and there will be some difficult, hard choices to be made. But I am optimistic, and I believe that we will work together to address this problem.

However, there is a part of the budgetary scenario that concerns me greatly. It was not quite three months ago that the President signed into law H.R. 3038, the HUD-Independent Agencies Appropriations Act of 1986. This legislation funded the community development block grants (CDBG) at a lower level than in previous years, and I supported that funding level. However, I must state my opposition to the proposed deferrals of $500 million of fiscal year 1986 appropriations for CDBGs.

As they should, many local communities across the Nation took the "word" of the Federal Government and believed that if an appropriations bill was passed by Congress and signed by the President, then the money could be counted on. They made plans based upon this commitment and proceeded with their projects in a business-like manner.

Let me recount for you how this proposed deferral affects Georgia. In my State, the CDBG program represents the largest single source of Federal assistance for municipalities. In fiscal year 1985, Gergia received just over $65 million in CDBG funds. The day after the HUD-Independent Agencies Appropriations bill for 1986 was signed into law by the President, the Governor of Georgia notified 82 grant recipients of their selection for funding under the CDBG program. These Communities have relied on this commited funding for many worthwhile projects, such as the installation of water and sewer lines, the rehabilitation of low and moderate income neighborhoods, and the construction of senior centers to house comprehensive programs for the elderly. The deferral of this funding will sidetrack, if not kill, many of these programs. It seems to me that what is happening is that one minute the message is, You've got the funding, go ahead and make preparations for these good projects, let your contracts and begin construction", and the next minute the word is "oops, no you don't have the funding we promised—forget about them, cancel the contracts and halt the construction".

Now, I am not suggesting that that this program be insulated from any future actions to reduce the Federal

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deficit. The program comes up for reauthorization this year, and there will be many opportunities to change this program and perhaps end it if the Congress deems it necessary. But we must play "fair" with our State and local governments. I have always supported efforts to reduce Federal aid and the Federal mandates placed on those in our home States and hometowns. But let's be fair! Let's give these local governments some warning—let's not give them money and make commitments to them one day, and then turn around and take the same money from them the next.

I believe this deferral is not appropriate, and request that the funding be released. I am sending a letter to the President concerning my strong feelings on this issue. It is my hope we can close the door on fiscal year 1986 funding for CDBGs, and now devote our energies to developing and implementing a responsible budget for 1967.

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City of Avera

P. O. BOX 125

Avera, Georgia 30803

February 12, 1986

Senator Mack Mattingly
United States Senate
Washington, D.C. 20510

Honorable Mack Mattingly,

Somewhere down through life their comes a time when we have to speak out and hope to be heard by someone who will come to our rescue. That's the point we have come here in Avera Ga. We are in desperate need to be HEARD and hope to get someone's ATTENTION.

This disaster need is on our Water System which supplies water to 118 household.

The first of 1984 the City of Avera with the help of Senator Bill English, the Dept. of Natural Resources, Dept. of Human Resources, Mr. Jim Caldwell with Ga. Dept. of Community Affairs alone with other State Inspectors and a Consulting Engineer Firm submitted and application in June of 1985 requesting a Grant of $263,555. through the Community Development Block Grant.

The complete system is in great need of updating from the beginning to the end. WE are holding on day by day patching our lines, (which at this very moment we have a bursted main, water flowing like a river, having to wait until the City of Wrens can come to our rescue with a backhoe. This has happened six times in the last seven months causing a big expense to the City.) Most of our lines are galvanize which are deterioated with rust from age. Our chemical equipment, pump house, and water tank (which was a used tank when purchased in 1972) needs updating.

The City can't afford to do any of this work for in the past our City Administration borrowed from Farmers Home Administration to get our system started and it's been a struggle for the City to meet these payments. Our problems would be solved with the water system if the City received this Grant.

In December a burden was lifted when we received a letter from Governor Joe Frank Harris we had been selected to receive a Grant Commitment from FY 1986 funds totaling $263,555. I notified the water customers, it came out in the papers Avera was to receive $263,555. We thought this was a sure thing. Then notice came if the budget was cut 20 out of the 82 who received Commitments would not be funded. This being a great concern to me as I had notified some of our customers that's having severe problems with rust that relief was on the way. I began to check with the Georgia Department of Community Affairs to see if Avera would be in the 20 and I was told we would.

This would be such a dissappointment to our City especially our people. Most have been very patience and understanding that we can't do anything to correct the problem without help from our State. We have to tolerate with discolored water our laundry comes out sometimes soiled to the point it can't be worn. Some haul their water from near by springs to drink and others go to the next town to the laundry mat to do their wash.

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We would be very grateful if you would vote against this deferral and let the communities thats already received notice of funding be funded for FY 86.

What's small cities with such an expensive project that can't get grant money and don't have any going to do?

We are at the Mercy of our LEADERS AND NEED EACH AND EVERYONES SUPPORT.

Thank you and if there's someone else I need to contact in this matter please advise. What it boils down to without this money we are going down with our water system.

With Best Regards,

B.C. Smith

B.C. Smith, Mayor

BCS/js

STATE OF GEORGIA

OFFICE OF THE GOVERNOR

ATLANTA 30334

Joe Frank Harris
GOVERNOR

November 26, 1985

Honorable B. C. Smith
Mayor of Avera
Post Office Box 125
Avera, Georgia 30803

Dear Mayor Smith:

It is my pleasure to notify you that City of Avera has been selected to receive a grant commitment from FY 1986 funds totalling $263,555 under the Community Development Block Grant Program for Non-Entitlement Communities. This grant is contingent upon the state's receipt of a federal allocation in the approximate amount of $33 million. Although Congress has agreed upon an FY 1986 appropriation for this program, there is still a chance that action to reduce the federal budget deficit could cause mid-year cuts before funds are actually received by the state.

Commissioner Jim Higdon of the Department of Community Affairs will contact you in the near future to provide you with additional information on this state-administered program.

I congratulate you on being selected as a recipient and offer my best wishes for successful implementation of your community development project.

With kindest regards, I remain

Sincerely,

Joe Frank Harris

JFH/cab

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DEFERRALS

Senator MATTINGLY. I just want to ask you a few questions, though I guess my comments are more in a statement form rather than question form. As you well know, I have been supportive of efforts to reduce Federal spending and try to get a balanced budget. I think the program that has been proposed as the 5-year reduction is the way to go, and we will be the ones who legislate and decide where it goes.

But there is a part of the budget scenario that really concerns me because it was not quite 3 months ago when the President signed into law, H.R. 3038, which is the HUD/Independent Agencies Appropriations Act of 1986. What that bill did is fund the CDB grants at a lower level than in previous years. I supported that spending level.

However, not only myself but many other people, have a great deal of problems with the deferrals of $500 million for fiscal year 1986 on the appropriation for CDBG's. The people in my State, and I think most States, took the word of us and the President, the Federal Government, and believed that they could count on the appropriations that passed the Congress and were signed by the President. The States made plans based upon those commitments and proceeded with their projects in a businesslike manner.

I won't tell you how much that meant to my State or any other State. You have that information, but I know that in my State, the Governor notified 82 grant recipients of their selection for funding for CDBG programs. And they relied upon that funding to develop their projects. The deferral of this funding will sidetrack, or possibly even kill, these projects.

I am not suggesting to you that the CDBG program should be insulated from any further actions to the Federal budget to reduce the deficit. I think the program comes up for reauthorization this year and there is going to be a lot of opportunity to change the program if the Congress deems it necessary.

It seems to me that we ought to play fair with our State and local governments. I have always supported efforts to reduce Federal aid and Federal mandates placed upon our States and local governments across the country. But we ought to be fair with them and give them some type of warning.

I don't think we ought to appropriate them money, have the President of the United States sign that bill into law and then turn around and take it away. To me, this type of deferral is not appropriate.

Do you have any particular views on this issue and what do you see happening in reference to this type of deferral?

Mr. MILLER. Let me say, I think you are right. I mean, we need to have some stability in our policies. We shouldn't be just sort of jerking around. We need States and localities who plan on funds from the Federal Government to be able to plan ahead. I believe in that.

On the other hand, this is a contentious matter, as you know, because it is very strongly opposed by the administration, and as you noted in the appropriations, it was reduced somewhat.

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But I guess I come back to addressing the question to where we are going to get the money. I mean, if we have got to make a cut somewhere, and it seemed to us that this program is a particularly cost-ineffective program, it made sense for us to seek deferral of these amounts. As you know, under Gramm-Rudman-Hollings, supplementals, such as additional moneys for embassy security, have to have offsets somewhere, and this deferral is an offset or a rescission, excuse me.

Senator MATTINGLY. That is not part of the $11.7 billion?

Mr. MILLER. No, not the $11.7 billion.

Senator MATTINGLY. In fact, not part of anything.

Mr. MILLER. No; but under Gramm-Rudman-Hollings, in order to seek a supplemental for 1986, you have to have some offset, some decrease in spending somewhere else. So we had to, there are some things we had to do. Like CCC, we have to come back and get some supplemental for some of the agriculture stuff and other things that have to be underestimated. And also for embassy security and also for IRS agents and a couple of other things.

DEFERRALS AND RESCISSIONS EXCEED SUPPLEMENTALS

Senator MATTINGLY. Do those deferrals and rescissions that you had in there exceed the amount?

Mr. MILLER. The deferrals and rescissions do exceed the amount of supplementals.

Senator MATTINGLY. So some of it will eventually be released?

Mr. MILLER. Yes, yes, it could be released, but I think on the merits, we still submit the same proposal for CDBG.

Senator MATTINGLY. Between now and September 30, a certain number of those will be released; they all won't be totally deferred?

Mr. MILLER. Well, Congress has to decide what to do.

Senator MATTINGLY. Indecision is a terrible thing.

Mr. MILLER. Yes; I agree.

DEFICIT REDUCTION PACKAGE

Senator MATTINGLY. That is the only question I had. I would like to say that I believe we have succeeded with the 5-year deficit reduction package. I think we have succeeded from the standpoint that we have set the parameters, which is a $144 billion deficit.

I think no matter what the courts or anybody else does, we have been successful. I think the word is getting out even west of the Potomac that it is working and this is the way to go. I believe a lot of things that happened between December and now, of course, are just rhetoric that came by the way of this place being undefended. The people know full well that Congress is the one that ends up rearranging the budget.

It really is us who decides where that money will be spent.

Irrespective of where it is spent, so long as you hold firm at $144 billion, the people of this country are going to win.

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Thank you, Mr. Chairman.

Chairman HATFIELD. Thank you, Senator.

The Senator from New Jersey is recognized.

CONDITION OF PRESIDENT'S BUDGET

Senator LAUTENBERG. Thanks, Mr. Chairman. We have had varying attendance here, but that doesn't indicate in any way, Mr. Miller. You know how interesting you are to all of us. We have had a chance to chat.

Chairman HATFIELD. We just save the best until last, Senator.

Senator LAUTENBERG. That is very kind. See who walks in the door now, right?

Mr. Miller, we have been through kind of a round in Budget Committee hearings, but there are a few things I would like to deal with here, because we all agree it is important to get the budget resolution into place as soon as possible, and this committee faces a lot of hard work and tough choices, moreso, I think, now, as a result of where we are in the process.

I think it is fair to say that from this Senator's standpoint, the President's budget is unrealistic. I don't think it is going to be adopted. Congress doesn't seem to me to agree with the budget priorities as presented. Neither did the American people. You see it in polls. They love the President and don't like his programs. It is an interesting case of a person communicating the kind of persona that people respect and admire.

The Governor of my State is a Republican and made a speech to the New Jersey Chamber of Commerce and made a public appeal to save Amtrack and mass transit, other programs that are of vital interest to the well-being of my State, and we heard Senator Johnston talk about the needs of Louisiana.

Each one of us has a definition of what is critical and important, and it reminds me of that old definition, the anecdotal representation of: What is a recession? What is a depression? Recession is when my neighbor loses his jou, and depression is when I lose my job, and so it is with each one of our States.

ACCOUNTING AND INTERNAL CONTROL SYSTEMS

The Accounting and Auditing Act of 1950 requires Federal agencies to establish and maintain an accounting system that conforms to certain minimum standards prescribed by the Comptroller General.

The FIA, the Federal Managers Financial Integrity Act of 1982 reaffirmed this request: Establish a process, annual reviews and reports on the status of agency accounting and other internal control systems. Last December, in a report summarizing the results of FIA assessments for 1985, GAO concluded that 226 of the 427 accounting systems reviewed were not in conformance with the Comptroller General's accounting principles, standards, and related requirements, your own FIA report, and the management of the United States confirms that, Congress confirms GAO's assessments.

You did put something in the last couple of pages of the book. I don't know whether that is coincidence or not, but what you say is the Department of Education was able to report that 22 of its 29 accounting systems conformed. The Department of Interior quoted that 9 of its 13 accounting systems generally conformed. The Department of State admits that its accounting system, although it has required budgetary control, does not meet appropriate principles and standards.

I am shortening this. If it is necessary to have the full text, we will submit it. The Department of Justice, the Department of Labor was unable to report that its accounting system conforms, and the list goes on.

How do you explain the fact, Mr. Miller, that over half of the Government's accounting systems failed to meet this minimum GAO standard?

Mr. MILLER. Let me back up, if I could, by saying, we truly do take seriously our role in management as well as budget. This year, we published, at the same time we printed the budget, we printed our management report that you received, and it contained a message from the President on management issues. Let me say that we are not satisfied that half the accounting systems do not conform. We are working toward the full implementation of the Act's requirements, and——

Senator LAUTENBERG. How long will it take, do you think, to get to that situation?

Mr. MILLER. I hate to say. It will surely take more than a year, but I can just assure you that we will persevere in moving on them.

Senator LAUTENBERG. The inference, though, is that if we are not conforming to standards and principles, that there is an opportunity for things to go awry; that audits are difficult to perform.

Mr. MILLER. Yes.

Senator LAUTENBERG. And that we could be spending some money that we don't need to spend by accident; could be significant sums of money.

Mr. MILLER. That is right. Of course, that is one of the functions of the IG's that we brought into being, is to replace that sort of thing. That certainly can be helped by improved accounting systems.

INVENTORY REDUCTIONS OF PAYROLL SYSTEMS

Senator LAUTENBERG. I notice that in the report that on page 47, Mr. Chairman, the OMB takes credit for reducing the Federal Government's inventory of almost 150 payroll systems to no more than 12. I do have to remind you that that was my basic business when I was in the computer world, and I wrote a letter in October 1983 asking for a review of that, and I think we are going to save about $50 million a year as a result of that. I am happy that it got implemented. I just think it would have been nice to see a footnote that Frank Lautenberg was responsible.

Mr. MILLER. We should have done that. We have a propensity to take any good ideas and run with them.

Chairman HATFIELD. We can put that in our next edition.

Senator LAUTENBERG. Yes, well I have something else coming.

Mr. MILLER. I am suitably reprimanded. I should incorporate any additional idea, Senator Lautenberg.

DEVELOPMENT OF FINANCIAL MANAGEMENT SYSTEM

Senator LAUTENBERG. You indicate in the pamphlet that the Department of Transportation is developing the prototype financial management system for domestic agencies while the Department of State is developing the model for international. Other sections of the same report, to press on, however, indicate that neither State nor DOT has an integrated financial management system of its own. Moreover, State's accounting system does not meet the Comptroller General's standard, and neither do several of the DOT's 14 systems.

UNIFIED ACCOUNTING SYSTEM AT DOT

I also understand the effort to develop a unified accounting system at DOT began in 1984, but it is bogged down with a variety of design development problems. In fact, GAO, in a letter to DOT dated February 7, just a couple of weeks ago, indicates DOT's General ledger model still needs further modification to get within the GAO's accounting requirements.

Why do you have those particular agencies—they seem to have such serious problems in accounting—take the lead in reforming the government's accounting system?

Mr. MILLER. One of the things that we are doing is, with different elements, having different agencies take the lead; develop the approach; have agencies copy it. Financial management has the lead agency as Treasury. Our new Associate Director for Management, Carol Dineen, was an Assistant Secretary at Treasury; knows well their financial management programs, and is in the process of getting other agencies involved to adopt similar programs.

But she also feels very strongly that a lot could be learned by one agency's taking the lead and developing the program and having other agencies adopt it. So in different areas, we have assigned different agencies to take the lead, not that in every way, they are perfect.

Senator LAUTENBERG. It would have been good to take a Department, I think, that is along the way. Each of our departments are fairly complicated in their structure, and I think it would have been helpful if we took a couple of those, where it would be hard to hire an international department to match State, but certainly DOT could have been matched elsewhere, and I think it would have been better, I think, to have those more up to date in going ahead with it.

We trust that you will continue to press forward.

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REVENUE ENHANCEMENT

You know, Mr. Miller, we talk so many times about having to live within our means, and I just heard a comment from one of my colleagues about adhering to your mission of meeting the $144 billion deficit target for 1987. But of course, we can meet that in several ways. We could continue to chop away at programs, I think, that ultimately undermines the functioning of our country, or we could have some revenues come in and not have to cut so deeply and still wind up with the $144 billion target, right? I mean, that is basic accounting.

Mr. MILLER. Well, yes, basic accounting.

TAX AMNESTY

Senator LAUTENBERG. Right. I haven't honestly seen the same focus on revenue generation, and I am not talking now about slipping right into the tax mode; I am talking about those things that, you know, that I have kind of been harping on, that is, the tax amnesty.

Mr. MILLER. Right.

Senator LAUTENBERG. And the sale of some government loans and things of that nature.

Mr. MILLER. Right. Again, the tax amnesty issue, you were the first one to suggest it to me, as we had a colloquy before the Senate Budget Committee. We will look at that.

But bear in mind that over $12 billion of this $38 billion cut in the President's budget consists of revenue increase. Thirty percent of the $38 million is in revenve. Only $22.4 are cuts in the domestic area.

EDUCATION VOUCHERS

Senator LAUTENBERG. But these are cuts relatively finishing off, so the noose keeps tightening at the same time. Very frankly, I have a tough time understanding the President's rationale for wanting to introduce expense increasing items like educational vouchers and the college savings program. These are, perhaps, admirable programs and ought to be debated on their merits as opposed to their financial consequence, but to take that kind of an action, we are talking about $2.5 billion, I think, that could result in less revenue as a result of these decisions, right? I mean, these are tax——

Mr. MILLER. I don't remember the precise number, but education vouchers.

Senator LAUTENBERG. Two billion dollars, I think.

Chairman HATFIELD. Thank you.

Senator LAUTENBERG. I think if we are talking about trying to reduce that deficit, it seems terribly inconsistent, to me, on one hand to say, no, we are not going to permit any revenues, even those that are socially acceptable, and on the other hand, to extend the deficit, expand it by reducing the opportunity to collect revenues.

Chairman HATFIELD. Thank you.

Senator LAUTENBERG. Thank you, Mr. Chairman.

Chairman HATFIELD. The Senator from North Dakota.

Senator BURDICK. Thank you, Mr. Chairman.

Mr. Miller, thank you for appearing before the committee today. Let me say at the outset that I am concerned by the priorities the administration budget has put before us. As my colleagues have already pointed out this afternoon, this budget asks for a nearly 12 percent increase in defense spending and it raises no new revenues to pay for the increase. It asks for deep cuts in some of the most important government programs: education, health care, child nutrition, and of course, agriculture.

I submit, Mr. Miller, that this budget is out of balance.

EFFECT OF GRH ON AMERICAN AGRICULTURE

Let me just take one example, agriculture, which you know is crucial in my State and in most of the heartland of America. Come March 1, our farmers will take a direct hit from Gramm-Rudman. I realize your agency has no control over Gramm-Rudman. But on March 1, the farmers will make a significant contribution toward reducing the deficit. Every payment going to a farmer will be reduced 4.3 percent.

At a time when the farming economy is in crisis, this will mean tremendous sacrifice to nearly every farmer. Despite this, the administration budget calls for even more cuts in agriculture programs. In the face of a 12 percent defense increase, how can you justify sending us a budget that calls for an 18 percent cut in agriculture programs? These are programs that we have long supported over the years, rural electrification, for example, loans to be cut 65 percent and phased out in 5 years; extension service, 60 percent reduction; Farmers Home Administration decrease, direct operating loans, 45 percent; food programs, 20 percent cut in child nutrition programs; Federal crop insurance, 5 year phase-out of this government program.

Mr. Miller, I, with all my energy, I want to explain to you that there is a crisis in the farm belt. This extends between the two coasts and the strife and trouble out there is overwhelming. We have had suicides; we have bankruptcies.

Things are in a very bad way. When you consider the value of agriculture to our economy, when you consider that agriculture contributes about 22 percent of the Gross National Product, I think it is not only of interest to us in the farm belt, but it is of interest to the whole Nation. Because I don't know one industry that can contribute that much to the Gross National Product. You have to consider all the direct and indirect benefits that grow from agriculture.

I hope that this budget that has been submitted is not set in concrete and there will be some way to alleviate some of these very deep cuts. The ones I have listed are very fundamental to prosperity on the farm and, of course, the cuts that have been announced, the most disastrous.

ADMINISTRATION POSITION ON AGRICULTURE

What is the position of the administration? Are they set in concrete on some of these positions?

Mr. Miller. Well, we are not set in concrete on these positions, and I look forward to some discussion about them. We believe that the proposals we have made make a lot of sense, and we would like an opportunity to explain why to you.

Senator BURDICK. I know earlier today you mentioned the fact that the farm bill has contributed $52 or $53 billion dollars to a program. You, of course, understand that that is for the life of the program but not for any particular year.

Mr. MILLER. Three years.

Senator BURDICK. That is right. I think that because of the benefit of farm production, the current crisis farmers are facing on the farm fully justifies that expenditure, and I hope before we meet in the next few months there might be a softening of your attitudes.

Mr. MILLER. Thank you, Senator.

Senator BURDICK. Thank you.

FY 1986 SUPPLEMENTAL REQUEST

Chairman HATFIELD. Thank you, Senator. Mr. Miller, there are two clarifications that I would like to ask you to make. I believe you testified before the Budget Committee and stated that your fiscal year 1986 supplemental request did not have to be offset by rescissions.

In response to Senator Mattingly, you indicated that the CDBG deferral was a necessary part to offset fiscal year 1986 supplementals, such as for embassy security. I am trying to clarify my understanding on that issue.

Mr. MILLER. Senator, you are most observant. I did say that before the Budget Committee, and I went back and I talked to my lawyers, and it is a complicated matter.

Technically we don't, but operationally we do. That is, you couldn't bring to the—we are not required to—but you can't bring to the Floor, as I understand it, a bill that does not have an offset, so in effect, we have to do it.

Chairman HATFIELD. You are not under a legal requirement to do so?

Mr. MILLER. An operational requirement, I guess is the best way to put it. I would be glad to give you something for the record on that.

[The information follows:]

OFFSET OF SUPPLEMENTAL FUNDING REQUESTS

Public Law 99-177 does not appear to specifically require the administration to offset supplemental funding requests with specific rescissions or deferrals in fiscal year 1986. However, it is the administration's position that all supplemental funding requests will have to be offset.

OFFSET OF NICARAGUAN AID

Chairman HATFIELD. How do you plan to offset the $100 million in Nicaraguan aid, then?

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Mr. MILLER. We have not made that determination yet.

PROGRAMMATIC REDUCTIONS IN CURRENT SERVICE LEVELS

Chairman HATFIELD. All right. There was one other point I wanted to ask. In your testimony on page 3, when you talk about the $25.1 billion in programmatic reductions from current service levels, you indicate $2.7 billion of this amount comes from reductions in defense funding and only $22.4 billion comes from less than—you say less than 60 percent from cuts in domestic programs. That factors out to be about 89 percent reduction in non-military and 11 percent reduction in the military. Mr. Miller, am I correct that——

Mr. MILLER. I see what you mean.

Chairman HATFIELD. And the programmatic reductions of $25.1 with $38.2. The others will be through tax and other revenue.

Mr. MILLER. Yes.

Chairman HATFIELD. Mr. Miller, that seems to me to be an inordinant imbalance between the reductions of military versus non-military. If I understand the Gramm-Rudman correctly, if we do nothing and September comes along, then you would be required to sequester 50 percent of the programmatic reductions from military and 50 percent from non-defense; is that correct?

Mr. MILLER. That is correct.

Chairman HATFIELD. In other words, to get more equity, then, there is a great incentive for us to do nothing in order to get these reductions as a contrast, say, to the budget proposal?

Mr. MILLER. Let me say two things in that regard. One is, I think it would be best for us not to talk about equity. I think we need to talk about ordering priorities within a set of restraints.

Chairman HATFIELD. I see.

Mr. MILLER. To some extent, I mean, to a great extent, the amount we spend on defense, I think, depends on parameters beyond our control.

Chairman HATFIELD. Mr. Miller, I think you are absolutely on target. Also, I think that is where we are really losing sight of the real debate that should be going on in the Congress, not in figures or percentages and targets and all of that. But, we ought to talk about what our national priorities truly are.

What is the value system? Increase the capacity to destroy life, or to try to improve the quality of life might be one perspective on that debate.

NATIONAL SECURITY QUESTION

I think also, there is another debate we should be engaging in, and that is what constitutes the national security of the Nation? Is it to be found only in megatons and arsenals or hardware? Or is it, perhaps, as well, in the quality of our education and our health, our housing, our nutrition, our infrastructure, our production or nonproduction economy?

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Would that we could get into those debates, and maybe one of these days we will, Mr. Miller, you have been very, very generous with your time, and I am going to call on the Senator from South Dakota who has some important questions to ask you.

REQUEST FOR SUBMITTED QUESTIONS

I only want to indicate that there will be additional questions submitted to you in writing from other members of the committee and they will be submitted to you by noon tomorrow. I am hopeful that we can get some response to those questions by February 28, which is a Friday, if that is a reasonable period of time.

Mr. MILLER. Oh, excuse me. The 28th, we will do our best, Senator. I have questions backed up from the other committees that we are trying to answer.

Chairman HATFIELD. Please understand, we need the questions answered from the standpoint of the Budget Committee's markup that begins on March 3.

With this, I will turn the gavel over to the Senator from South Dakota. He may question you as long as the light shines.

Senator ABDNOR. I would love to.

Mr. MILLER. Could we get the transcript fairly soon?

Senator ABDNOR. Mr. Chairman, this is very important. I know you want to get out of here, but I do have a couple of questions. I will hurry as fast as I can.

Mr. MILLER. All right.

[Short recess.]

Senator ABDNOR [presiding]. I apologize. I know you want to get out of here.

Mr. MILLER. That is all right.

POSTAL SUBSIDIES

Senator ABDNOR. You have been here a long time. I appreciate that you waited. I do have a couple of questions about Treasury and Post Office Appropriations, my subcommittee. The administration proposes no appropriation for postal subsidies except for the blind. The budget also indicates that legislation will be submitted to ensure that reduced rates can be continued.

The fiscal year 1986 budget submission was precisely the same. We never did see any legislation. Do we have a time table on delivery of the legislation this year? Is this the case again this year? Do I assume that the administration will not object to the vital appropriation for the subsidy until we have something, a message from you?

Mr. MILLER. Senator, you have asked me in an area that I am not readily acquainted.

Senator ABDNOR. It is one that is very popular up here. I have stuck my neck out, and people seem to want the subsidy. It would be a real help to have what is on your mind.

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Mr. MILLER. I will get back to you right away, if I can.

FIGHT AGAINST ILLEGAL DRUG TRAFFICKING

Senator ABDNOR. I know of another issue that was touched on today—the increased funding in the fight against illegal drug trafficking. The budgets of the Federal Bureau of Investigation and the Drug Enforcement Administration have received increases of over $154 million in this budget. Yet the budget reduces the Customs Service by 700 positions which will come on the heels of a reduction of the 700-plus positions which will not be filled as a result of Gramm-Rudman-Hollings.

Now, we have also received rescissions of over $23 million. I am as concerned as anyone about drug interdiction. I have got to confess, I am a bit concerned about what I have just described.

Is it practical to reduce funding for front line protection? It would seem to me that it makes more sense to spend money to stop drugs at our borders rather than once they have reached the States. I think that is a practical assumption. I should note that Customs does not only spend its time seizing drugs; it also clears passengers and cargo. With traffic increases and imports growing, we must act to expedite the handling of people and goods. Textile and industrial fraud are also increasing.

How can we continue to reduce enforcement activities? And I might add that Customs will collect $15 million in duties this year and better enforcement can collect more. That is one of the assumptions for the IRS increase. If we give them more people, we will raise more dollars. How can we justify those cuts?

I was with Attorney General Meese for the renaming of a building for some poor ATF agent who was shot to death. We were standing there fighting for enforcement of drug abuse. I said, "We are a bunch of hypocrites. We talk about it, and then we are going to take 1,500 people out of Customs." We went through this a year ago, and we got rid of excess people.

AIR INTERDICTION

These are people on the line working now, and now we are going to take off 1,400, 1,500 people, and we are going to stop our air interdiction. We are getting the P3 on the job and they are doing a great job. The military planes have been resurrected and the AWAC type radar put in the F–16, which reaches out 125 to 150 miles on each side. We also have a couple of radar balloons up now. Now that we have beefed up the Florida task force—originally the Vice President's and now the President's task force—we simply pushed the traffic up to the Northwest.

This is just as important as the military. You can get destroyed from the inside as well as the outside. I just wonder, do you really think it is good business to whack Customs this much? Maybe we can figure a little user fee or something to pick up additional funds.

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AGENCIES INVOLVED IN DRUG INTERDICTION

Mr. MILLER. Senator, we don't disagree over the need to interdict and prosecute illegal drug trafficing. We disagree on how best to do it. Twenty agencies of the Federal Government are involved in drug interdiction and prosecution. In total, we propose a $146 million increase for these agencies above current services estimates for 1987.

Keep in mind that expenditures for these agencies for the drug enforcement activities has doubled under the Reagan administration.

Senator ABDNOR. Pardon me for saying it, but I am also afraid drugs keep coming in, too. But go ahead.

Mr. MILLER. It is obvious we need a good effort that, in our judgment, is more cost effective than additional personnel for the Customs Service. We believe the Customs Service could do its part very effectively on the sources we have given it and in a coordinated, interrelated program.

DRUG INTERDICTION AT U.S. BORDERS

Senator ABDNOR. One thing I disagree with is that it's cost-effective trying to stop drugs once they hit the streets. Who is going to stop it then?

Mr. MILLER. Customs Service personnel are not the only people involved in stopping it before it gets into the country.

Senator ABDNOR. Who is working on that, catching airplanes coming in at night and boats coming in? I guess the Coast Guard is working on that. They put people in the FBI, and that is great. But they are not the ones trying to stop it on the borders. I just think it is a mistake, I really do. I got so wrapped up in this, I am trying to set up high school conferences.

I tell you, they confiscated drugs from high school kids and brought them to a hearing I had. Packages about this size and that wide, one was cocaine, one was heroin. I said to the guy, "How much is that heroin worth on the street?" His answer was $2.5 million. It just shakes you to think that.

I know everything is important in this business, but I have got to believe that this is something that needs looking at very carefully. I don't know; maybe I have been taken with ATF, but I see the ATF and particularly Customs being shot at while everybody else is trying to stop drugs. But, more and more of it is coming in across the borders down there.

P3 AIRCRAFT

These P3's are tremendous and the military is letting us use them. It isn't like we wasted a lot of money. We have got them equipped and need pilots to fly them. Let me tell you, it disturbs these drug smugglers, because it is tougher and tougher for them to get away with it; they keep bringing more in. I guess it is an endless battle.

SUPPLEMENTAL FOR IRS

Let me go on. My other problem is, you intend to have IRS on them. You probably will. You are requesting a supplemental appropriation, or the administration is, of $340 million for the Internal Revenue Service. I may be beating a dead horse, but I am still curious as to why the Office of Management and Budget advised the President to veto the Treasury Bill last year knowing this supplemental was necessary. It may have looked good for you people, since people don't like the IRS anyway. Knowing there was extra money in there didn't make me very popular back home. I am aware about some of the things the President found objectionable, including language that was included in the budget request, but the major reason the bill exceeded budget targets was that the committee anticipated the IRS needs and included extra funding for processing problems and collecting more revenue.

Nonetheless, you are supporting across-the-board reductions that significantly impact the IRS. Then when the conference committee restored it, you urged the veto. Now we see a supplemental which is very close to our initial assumptions. I told all your people that, that it would be coming back to us, and here it is.

And I might add, the request had been submitted by the Treasury Department to OMB at the time of the veto. I just wonder what is going on.

Mr. MILLER. The position the President took and that I communicated on the President's behalf was very simple. He would veto anything beyond the 302(b) allocation. The Treasury, Postal bill was beyond the 302(b) allocation and had additional things we objected to.

If there were other ways of including money and including the IRS funding, we would have been glad to have looked at that.

BUDGET RESCISSIONS

Senator ABDNOR. Let me talk about the rescissions for a moment. Would you explain the decisionmaking processes that made your final recommendations that merely rescinded every congressional initiative?

Isn't that pretty much what is going on in the budget, that just about everything we had is coming out?

Mr. MILLER. No; not everything. A number of things that we objected to strongly have been proposed for rescission, as is the President's right to do.

AIR TRAFFIC CONTROL SYSTEM

Senator ABDNOR. Let me get onto another subject, and we can get out of here. We have both got things to do.

I have been interested in a proposal which is being discussed to establish a Federal corporation to fund and manage the air traffic control system. Are you familiar with it?

Mr. MILLER. Yes.

Senator ABDNOR. I understand that this would be a means of removing 37,000 employees and related systems in the Federal budget. It would also ensure that the users are getting the services they paid for

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under the air line ticket. Do you think the Federal corporation approach would better fill the needs of the traveling public and the ATC system without diminishing the safety? I don't know.

Mr. MILLER. It has a lot to speak for, and as you know, the budget requires a study of that issue.

Senator ABDNOR. What does it look like, safety-wise,

Mr. MILLER. Pardon?

Senator ABDNOR. Safety-wise.

Mr. MILLER. Obviously, we want to retain the safety features of it, so we will be studying that this year.

INDIAN HEALTH PROGRAMS IN SOUTH DAKOTA

Senator ABDNOR. One last question, personal and parochial, since it applies to South Dakota. The administration is proposing rescinding most of the funding for indian health programs. Since the Federal Government has the responsibility for the care of native Americans, how do you expect this commitment to be kept?

Specifically, I have a hospital which we have had in for 11 years, no one ever denied the need for it. But nothing happened. There have been articles all the way back here to the Washington Post. You may have missed it. There was an article about this place and the lousy health conditions they have down there. I feel strongly about providing education and health care for these people, all of them, on our reservations.

Now you are proposing to stop this project in the middle of construction. Do you anticipate that the States ought to be responsible for these expenses? I mean, who is going to do it, very honestly?

Mr. MILLER. Let me look into the details of the particular project that you are referring to.

IMPACT AID

Senator ABDNOR. I'm also concerned about impact aid. At this same place, this very same place, we have a Federal law saying you can't tax these lands with a property tax. I have a county where two-thirds of the land is nontaxable, indian land. Almost 82 or 83 percent of the school district's enrollment last year consisted of Indian students. And the ranchers in the area are not very profitable. It is not the greatest land. It takes a lot of acreage to keep a cow. They are pressed to the hilt. I have often said it: If you don't want to give us money for impact aid, let's change the law so we can tax these lands. I won't argue with that.

But until we do, there are real problems that we have to take care of. I just hope that you fellows will take a good look at that.

Mr. MILLER. We will.

Senator ABDNOR. I keep bothering you about impact aid. I am kind of known as the impact aid kid around here, I guess, because I don't think most people realize what a tough situation many of these federally impacted school districts are in. If you could tax Federal lands and military personnel properly, it wouldn't be so bad. But you can't assess property taxes on an air base like the SAC installation in western

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South Dakota. It is way out in the country, surrounded by nothing but ranchland. At one of our biggest school districts in South Dakota, these people are having an awful tough time trying to keep the schools open. I know they can't possibly do it without sufficient impact aid funding. Twice they have closed down.

Mr. MILLER. We will take a look at it.

Senator ABDNOR. I am glad I got a chance to point that out.

Mr. MILLER. Good.

SUBMITTED QUESTIONS

Senator ABDNOR. The committee has submitted questions. We will ask you to respond to those for the record. They will be inserted at this point.

[The following questions were not asked at the hearing, but were submitted to OMB for response subsequent to the hearing:]

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Additional Committee Questions

Questions Submitted by Senator Stevens

Defense Real Growth

Question — Last year Congress and the President agreed to defense spending levels of zero real growth in FY 1986 and 3% real growth in FY 1987. Considering final action in the fiscal year 1986 continuing resolution and the additional cuts mandated by Gramm-Rudman-Hollings, what is OMB's estimate in fiscal year 1986 for defense spending?

Answer: There is no real growth. In fact, there is a real decline of 5.8%.

Question — Is the amount requested by the President for defense in fiscal year 1987 consistent with the level included in last year's budget resolution for 1987?

Answer: Yes. The President's budget provides the same program levels for defense in 1987 and beyond that the Congress agreed to in the Budget

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Resolution they adopted last year. In fact, because of lower pay raise projections, reduced GNP deflators and elimination of the 1.3 special inflation factor for Defense major system purchases, the defense Budget Authority in the President's budget is $3 billion below the budget resolution level for 1987.

Defense Outlays

QUESTION The Director of OMB has informed the Congress that, based on historical spending patterns, the outlay estimate for fiscal year 1987 Defense spending is underestimated by $15 billion. What specific measures have been taken by this administration which account for the decrease in outlays from historical spending patterns?

ANSWER: I have never stated that Defense outlay estimates are underestimated by $15 billion.

Obviously, estimating outlays for a slow spending account such as defense is an inexact science. However, we believe our estimates are realistic.

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First, in the past, OMB has overestimated outlays -- by $4 billion in FY 1983, by $10 billion in FY 1984, and by $2 billion in FY 1985. (Then we were accused of inflating Defense outlay figures so as to reduce unobligated balances.) OMB's estimate for FY 1987 adjusts for this upward bias in the estimating methodology.

Second, our estimates appear very realistic in comparison with the outlay numbers incorporated in the Congressional Budget Resolution (CBR) agreed to last August. Consider the following:

- The CBR estimate for Defense outlays ($285.2 billion) for FY 1987 is only $3 billion over our estimate for 1987.

- This CBR estimate assumed some $5 billion more in budget authority for FY 1986 than Congress actually allowed in the Continuing Resolution, about $2 billion of which would have been spent in FY 1987.

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- Nor did it reflect a $13.6 billion sequester of budget authority for defense in FY 1986, of which some $4 billion was scheduled to spend out during FY 1987.

- Nor did it anticipate the President's asking for $3 billion less than the CBR top line for FY 1987, which reduces FY 1987 spending further by about $2 billion.

These adjustments reduce the CBR August estimate by $8 billion, to a level $5 billion below our estimate. In other words, our outlay estimate exceeds the adjusted CBR level by some $5 billion.

Third, there are many reasons to believe that Defense outlay rates will be less in the coming years than others assume.

- Increased economic growth. The upturn in the economy from 2.5 percent real growth in 1985 to an estimated 4 percent in 1986 and 1987

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should shift private sector attention from Defense to non-defense orders and thereby slow Defense outlay.

° Procurement reforms. The reforms instituted by the Administration and legislated by Congress should slow down contract awards.

° Reduced progress payments. The reduction in progress payments from 90 percent to 80 percent made in April 1985 should have greatest effect in 1986 and 1987. This is because procurement appropriations have large second and third year spend-out rates.

° Program composition. The shift in the composition of procurement from major systems to support equipment should result in slower rates for procurement spending.

QUESTION : It appears from budget justification material that first year outlay rates for Defense spending in operations and maintenance and research and development accounts are projected to decrease in

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fiscal year 1987 from 1986 projections by about 4%. What is causing the decrease in outlay rates in these areas?

ANSWER: The budget does not reflect any significant change in first year outlay rates, as shown by the following table:

First Year Outlay Rate Percentages
FY 1987 Budget

	1986	1987	Change
Operation & Maintenance	73.6%	73.0%	-0.6%
Research and Development	46.5%	46.6%	+0.1%

This small difference in rates is due to program changes within the accounts that make up these two appropriation titles.

MILITARY RETIREMENT REFORM

Question Do you expect an outlay change from current projections in fiscal 1986 and 1987 if the Congress fails to approve military retirement reform?

Answer: Yes, unfortunately, under current law we do expect a change in both Defense outlays and net government outlays should the Congress fail to

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enact one of the military retirement reform proposals or otherwise provide relief.

Normally, a reduction in military retirement accruals would affect only Defense outlays. Because these accrual payments are also recorded as receipts to the Trust Fund on the books of the Treasury, they have no net effect on outlays from the Unified Budget (i.e. on the deficit). However, the Johnston amendment to the Defense Appropriations Act stipulates that, if the Congress has not passed a reform proposal by May 1, 1986, the Secretary of Defense must begin reducing active military strength to achieve the $2.9 billion target. The Department of Defense has estimated that it would have to separate 330,000 personnel in order to meet that target. Clearly, this unacceptable action would produce a change in net government outlays in both 1986 and 1987.

In order to avoid this action, we have already forwarded legislation to the Congress which would relieve this obligation limit on a pro-rated monthly basis, thus ensuring the continued normal functioning of the military personnel accounts during Congressional deliberations on retirement reform. A portion of the $6.3 billion carry-over from prior year funds, mentioned earlier, was specifically designated to be available for this purpose. I strongly urge you to approve this legislation at the soonest possible time.

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QUESTIONS SUBMITTED BY SENATOR WEICKER

Welfare Reform

THE PRESIDENT HAS CALLED FOR A STUDY OF WELFARE REFORM BY DECEMBER, 1986. IN THE MEANTIME, THE FISCAL 1987 BUDGET PROPOSES TO CUT FEDERAL PROGRAMS AIMED AT PROVIDING JOB TRAINING AND CHILD CARE SUPPORT TO HELP WELFARE CLIENTS ACHIEVE ECONOMIC SELF-SUFFICIENCY.

- WHY NOT MAINTAIN EXISTING FEDERAL PROGRAMS ASSISTING WELFARE RECIPIENTS UNTIL WE SEE WHAT ALTERNATIVES THE PRESIDENT'S STUDY GROUP COMES UP WITH?

Answer:

Helping welfare families move toward self-sufficiency has been a goal of the President throughout this Administration. His commitment to this goal has had a tremendous effect, changing the very nature of the welfare debate from whether work activities are a good idea to how best to implement those activities. Recent history in the Aid to Families with Dependent Children (AFDC) program illustrates my point.

- o In 1981, Congress approved as a State option the Community Work Experience Program, authorizing States to provide AFDC recipients with work experience in public or private nonprofit agencies. In this same year, States were given the latitude to move activities from the failed WIN program to State welfare offices under "WIN Demonstrations."

- o In 1984, Job Search and Grant Diversion, which permits States to "divert" money that would have been used as a welfare payment into a wage subsidy for a specified period of time, were added as State options.

The flexibility provided by these measures has led to a large number of initiatives by the States to open up new work opportunities for welfare families. Since 1982, 39 States have implemented new programs promoting work activities for AFDC recipients. The most remarkable characteristic of these programs is how much each differs from the other -- as do State job markets, welfare caseloads, and administrative methods.

The variety of approaches developed by States have provided a valuable laboratory for determining what works. Evaluations of work programs in 11 States are being conducted by the Manpower Development Research Corporation (MDRC), which, based on results to date, has found that:

- o States can run successful large-scale work activities for welfare recipients.

- o These programs can be effective from the perspective of both the welfare recipient and the taxpayer.

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- An overwhelming majority of recipients themselves think that work requirements are fair.

- WHY SHOULD CONGRESS ENACT THE ADMINISTRAITON'S PROPOSED MANDATORY "WORKFARE" LEGISLATION WHEN THE GAO REPORTED LAST FALL THAT "EVIDENCE IS INSUFFICIENT TO SUPPORT THE ADMINISTRATION'S PROPOSED CHANGES TO AFDC WORK PROGRAMS"?

The President's Work Opportunities Initiative builds on lessons learned since 1981. Contrary to what some have said, his proposal is a much broader and more flexible approach to welfare independence than "workfare." Under the Work Opportunities Initiative, each State will have flexibility to use programs such as the Community Work Experience Program, Job Search, Grant Diversion, and the Job Training Partnership Act to provide a work program that meets its unique requirements.

The President's initiative also builds on another important lesson learned over the past few years: that mandatory participation requirements are needed to ensure that the most disadvantaged -- not just the most job-ready -- are served.

Substantial Federal resources would be made available to implement this initiative. In keeping with the State-Federal partnership which AFDC represents, all administrative costs associated with implementing and running work programs would be matched at a 50 percent rate. This match is open-ended and, because of the great importance of this program, would not be subject to a separate Administration proposal to contain administrative costs. We estimate $200 million as the Federal share in FY 1988. And as participation rates rise in later years, so would funding levels.

The Domestic Policy Council's study will look beyond this initiative -- which is based on what we already know about the positive effects of helping welfare families move toward self-sufficiency. The Council's study will evaluate a wide range of programs affecting the financial, educational, social, and safety concerns of poor families.

The reforms proposed this year are needed now. Welfare recipients want to work. They want to be independent of welfare. We will have more proposals when the Domestic Policy Council has completed its work, but in the meantime we must respond to the compelling need based on evidence already available.

RELEASE OF IMPOUNDED FUNDS

MR. MILLER, THE 1987 BUDGET PROPOSES MASSIVE RESCISSIONS OF ENACTED APPROPRIATIONS TO IMMEDIATELY TERMINATE THE WORK INCENTIVE PROGRAM, THE COMMUNITY SERVICES BLOCK GRANT, AND DEEPLY CUT OTHER PROGRAMS SUCH AS VOCATIONAL EDUCATION, REHABILITATION, THE JOB CORPS, AND SUMMER YOUTH JOBS.

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- DO WE HAVE YOUR ASSURANCE THAT YOU WILL TAKE NO ACTION TO CURTAIL THESE PROGRAMS IN ADVANCE OF CONGRESSIONAL ACTION TO RESCIND APPROPRIATIONS?

- IF CONGRESS TAKES NO ACTION ON THESE RESCISSIONS, WILL YOU PROMPTLY RELEASE THE FUNDS AFTER 45 WORKING DAYS, AS SPECIFIED BY LAW?

Answer: Action will not be taken to curtail these programs while Congress considers the proposed rescissions. These funds will be released as prescribed by law if Congress takes no action.

EDUCATION CUTS AND TAX REFORM

THE DEPARTMENT OF EDUCATION STATES THAT "BY KEEPING INFLATION LOW AND CONTINUING TO PROMOTE ECONOMIC GROWTH, THIS ADMINISTRATION HAS ALLOWED STATE AND LOCAL GOVERNMENTS TO HAVE MORE RESOURCES TO DEVOTE TO EDUCATION." AT THE SAME TIME, THE PRESIDENT CONTINUES TO PUSH FOR A TAX REFORM PACKAGE WHICH ELIMINATES THE DEDUCTION FOR STATE AND LOCAL TAXES.

- MR. MILLER, HOW LIKELY DO YOU THINK STATES WOULD BE TO RAISE TAXES TO SUPPORT EDUCATION, AND COMPENSATE FOR THE PROPOSED 17% CUT IN FEDERAL DOLLARS WITHOUT SUCH DEDUCTIONS?

Outlays proposed by the Administration for 1987 for elementary, secondary, and vocational education are $7.4 billion, about the same as the 1986 level. This is not a 17% cut, as implied by the question. In addition, for elementary and secondary education, Federal grants to States and localities are less than 10% of State and local expenditures. Almost all spending in this area has traditionally been by States and localities, and this will continue to be true.

- DOES THE ADMINISTRATION HAVE ANY ESTIMATES WHICH SHOW THAT STATES WOULD BE ABLE TO CONTINUE TO

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PROVIDE THE SAME QUALITY OF SERVICE IF THE DEDUCTION FOR STATE AND LOCAL TAXES IS ELIMINATED?

There is every reason to believe that States and localities would be able to continue to provide the same quality of education if the deduction for State and local taxes is eliminated.

-- Only about one-third of all families itemize deductions, and this group includes most high-income families. This means that about two-thirds of the taxpayers do not itemize their deductions, and therefore are largely unaffected by them.

-- Even though Federal grants dropped from 26% of State and local expenditures in 1980 to 21% in 1985, States and localities were still able to generate a surplus of $5.4 billion in 1985. This suggests that if spending is a priority, States and localities are able to raise the needed revenues.

-- From 1984 to 1985, State and local revenues excluding Federal grants increased $30.5 billion, or 7%. This also suggests that, with a growing economy and relatively low inflation and interest rates, States and localities are able to increase revenues.

QUESTIONS SUBMITTED BY SENATOR MCCLURE

Question Energy Deferrals

I note that the Office of Management and Budget has proposed to defer millions of dollars of new spending authority, especially in the fossil research and development and conservation energy areas. This spending authority reflects Congress' unwillingness to go along with proposed cuts for fiscal year 1986.

I also note that the original OMB request remains essentially intact in these areas.

You and I both know that OMB has some skilled budget analysts. However, I would appreciate an explanation on why so many Congressional add-ons are proposed for deferral, while the OMB request is ignored.

Answer:

The decision to propose deferrals was based on policy and programmatic factors. Many of the Congressional add-ons were proposed for deferral because they were for activities that were inconsistent with Administration energy R&D policies and priorities or were judged to be lower priority than items in the OMB request.

Question

The FY86 OMB request was submitted to Congress eleven months before the Continuing Resolution was signed into law. The proposed rescissions and deferrals indicate that only Congressional add-ons were analyzed and not OMB's request.

It is very hard for me to believe that, during that eleven

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month period, the skilled analysts at OMB did not find any excess funds, any waste, or a simply a better way to do something that would save money.

Does OMB stop analyzing that request upon submission and only analyze Congressional add-ons for deferral?

Answer:

OMB continually reviews on-going, as well as planned energy R&D activities and, as appropriate, proposes changes to budgets that were previously approved.

Question Reconsideration of Budget Proposals

From year to year, several parts of the OMB request have been very similar. A few good examples are the proposals to stop further construction of the Strategic Petroleum Reserve, sell the Naval Petroleum Reserve, and the proposal to pay states net receipts rather than gross receipts on revenues generated from mineral leasing on Federal lands.

At some point over the years, Congress has rejected all of these proposals, and some more than once.

Is there a reason to believe that Congress is more likely to adopt these proposals this year when they have been rejected in the past?

Answer:

To our knowledge, privatization of the Naval Petroleum Reserves is an entirely new proposal. It has not been offered before by this Administration. Some other proposals, such as the Strategic Petroleum Reserve moratorium, have been made in past years. But prior Congressional disapproval should not be a bar to reconsideration. Instead, we believe that any budget request whether new or not, must be evaluated in light of its programmatic rationale and the conditions that prevail at the time of its proposal. In the case of the proposed SPR moratorium, for example, we believe that dramatic improvements in oil market conditions over just the past few months and even greater pressures for deficit reduction, in light of enactment of Gramm-Rudman-Hollings, fully warrant Congressional reconsideration of the Administration's proposal.

Question Reproposal of Budget Reductions

In your tenure as Director, is it your intent to continue with these same proposals that have been annually rejected or to work with Congress in an effort to find new ways toreduce the size of the deficit?

Answer:

I am very much interested in working with the Congress to find any and all ways, whether they be new or old, to reduce the size of the deficit. I can understand your frustration with having to reconsider some of the same deficit reduction ideas that were proposed and subsequently dropped last year. However, we are reproposing some of these same measures this year, such as the moratorium on further development of the Strategic Petroleum Reserve (SPR), because we believe that they are programmatically justified. Moreover, in the case of the SPR, recent changes in world oil markets make our proposal even sounder this year.

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Question

OMB Scoring Rules

As you may recall, there was a serious question concerning the scoring of the FY86 Interior bill.

Can you briefly explain the OMB rule of thumb for scoring appropriations bills; does OMB score budget authority or budget outlays?

Do you anticipate this procedure will change in the FY87 process?

Answer:

OMB's general procedure is to score the total program level provided in appropriations bills, of which budget authority is only a part. The rule-of-thumb employed in the past is that if an action or directive in an appropriations bill results in additional budget outlays, it is scored as if it were new budget authority. These adjustments were based on the notion that there existed no better way to understand a bill's outlay (and budget deficit) impacts. Historically, the Administration has not used outlays directly to measure Congressional action, but instead has used budget authority (as adjusted), because it is the measure used by the Appropriations Committees.

We are still examining alternative procedures for scoring FY87 bills, but I anticipate that our underlying concerns about the effect of Congressional action on the deficit (and budget outlays) will continue to be addressed.

Question

Scorekeeping Adjustments

In the Interior bill last year we ran into a problem of double scoring of budget authority. $561 million was appropriated for SPRO construction and fill in FY84 and was subsequently proposed for deferral. Congress overturned that proposed deferral in the FY85 Supplemental. Nonetheless, OMB still attempted to again score that $561 million budget authority against the FY86 Interior bill. This essentially is double scoring; once in FY84 and again in FY86.

Will this scoring procedure change?

Answer:

We are unrepentant. The instance that you cite is exactly why we need scorekeeping adjustments, particularly now that Gramm-Rudman requires the President and the Congress to meet deficit reduction targets. The President's Budget is prepared using certain assumptions, in this case that the funds would not be obligated nor outlayed. When Congress overturned the deferral, it meant that assumption was no longer valid. There would be outlays (and a larger deficit). In fact, the Congress specifically directed that the funds be spent in FY86 and specifically reduced FY86 budget authority for this purpose by the amount of the deferral. Thus, it is entirely appropriate to include this item as part of the FY86 program level.

Examples of this kind of scoring are not that unusual because the budget is a snapshot taken each year of actual and estimated obligations and outlays. If an item is not obligated and disbursed in the first year (as anticipated), then normally it is anticipated that it will be obligated and disbursed the next year. Each time it is proposed to be outlayed, it contributes to the estimated deficit. Only when it is actually outlayed does the scoring stop.

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Question

Deferrals

The Congressional Budget and Impoundment Control Act of 1974 established a procedure of deferrals or rescissions. Clearly, the intent of the law is to establish a set of checks and balances allowing the Executive Branch to propose changes in the previous year's appropriations bills.

A deferral of budget authority is used to delay the expenditure of funds until some future time.

A rescission is used when there is no expectation that appropriated funds will be spent in the future.

In the report of rescissions and deferrals for FY86, there are instances where proposed deferrals look more like proposed rescissions. A good example is the proposal to defer $8.3 million of the Stirling Engine program. This figure represents the remaining funds after March 21, 1986. After that date, the program is proposed to be terminated.

This is only one example, however, but if the proposal is to terminate, isn't that a rescission rather than a deferral?

Is it just coincidence that the proposed termination date of March 21, 1986 is 45 days after the announcement, the same time limit that goes along with a rescission proposal?

Answer:

The question implies that a proposal to terminate a particular project is a program rescission. This is not the case. A rescission is a permanent cancellation of budget authority. In the case cited, funds are not proposed to be rescinded. Rather, funds are proposed to be used for other purposes in FY87 but within the same program area, i.e., conservation R&D. Hence, it is a deferral.

The 45 day period during which funds may be withheld while Congress considers rescission proposals is currently estimated to expire on April 15, 1986. The date of March 21 was selected to provide Congress an opportunity to review and respond to the deferral before any action was initiated to terminate individual projects.

Question

SPR Moratorium

We both know that the Administration is more likely to succeed by proposing deferrals then proposing rescissions. The Impoundment Control Act, however, did not envision a situation where Congress rejects a proposed deferral only to find the same funds proposed for deferral again the next year.

In a case like this, the proposal also appears to be more of a rescission than a deferral. Nonetheless, this is the exact situation we find ourselves in with respect to the construction funds for the Strategic Petroleum Reserve.

Could you define what is meant by an "indefinite moratorium" as it relates to SPR construction?

Answer:

The Administration has reported a deferral of Strategic Petroleum Reserve account funds under the provisions of the Impoundment Control Act and considers this deferral to be permissible under current law.

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The Administration is proposing to suspend Strategic Petroleum Reserve fill at the end of fiscal year 1986 when, as required by current law, the Reserve inventory will have reached 500 million barrels. This inventory will provide the nation with an adequate level of protection against a severe supply disruption. We believe that this policy is warranted by the combination of favorable oil market conditions, significant improvements in the nation's energy security over the past several years and Federal budget constraints.

As a result of this policy, the Administration also believes that further development of Strategic Petroleum Reserve storage capacity is not warranted at this time. We believe it would be inadvisable to add further storage capacity when we cannot foresee circumstances in the near-term which would dictate a need for fill of that capacity. This is particularly true with respect to the Big Hill site, since capacity development could be resumed more promptly and economically at other sites should the need for further oil acquisition materialize.

We will continue to maintain the Strategic Petroleum Reserve system in a readiness condition and enhance distribution capabilities to ensure that the Reserve is capable of performing its mission as required. This policy will be reviewed periodically in light of oil market developments and Federal budget conditions, and options are being kept open for resuming capacity development and fill on short notice in future years.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

RESCISSIONS OF DEFERRALS

o ON OCTOBER 1, 1985 THE PRESIDENT SUBMITTED A MESSAGE DEFERRING $223.6 MILLION OF FISCAL YEAR 1984 AND 1985 FUNDS FOR MASS TRANSIT NEW STARTS. IN THE FISCAL YEAR 1986 TRANSPORTATION APPROPRIATIONS ACT ENACTED IN DECEMBER, CONGRESS DISAPPROVED THE DEFERRAL AND DIRECTED THE MONEY BE AVAILABLE FOR OBLIGATION. YET, THE ADMINISTRATION NOW PROPOSES RESCISSION OF THESE FUNDS. IN PROPOSING THIS RESCISSION AREN'T YOU THWARTING THE WILL OF CONGRESS BY HOLDING THESE FUNDS UP, YET AGAIN?

Part 1: The Administration proposed this rescission because of the subsequent enactment of Gramm-Rudman-Hollings and the Administration's strong opposition to providing Federal discretionary assistance for the construction of new transit systems. If the will of Congress is to provide these funds, it simply need not approve our rescission proposal. Of course, Congress will then have to somehow provide up to $4 billion to finish these systems -- money the Federal Government cannot afford -- and other programs would have to be reduced accordingly.

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o SINCE THE JUSTIFICATIONS GIVEN FOR BOTH THE DEFERRAL AND RESCISSION ARE SO SIMILAR, ISN'T THE ADMINISTRATION'S CONTINUING IMPOUNDMENT IMPROPER?

Part 2: No. Two things are significantly different. First, last year the Administration's proposal would have used the deferred funds for other higher priority transit projects; this year, we are proposing no such reprogramming, but rather the elimination of these funds. Second, Congress changed the fiscal environment by enacting the Gramm-Rudman-Hollings Deficit Reduction Act. I should also note that we are not engaged in the impoundment of these funds. A rescission is just that -- a proposal. It is not an impoundment. It is the President's duty and right to propose whatever he judges best for the country.

o WHAT MAKES YOU THINK THAT CONGRESS WOULD NOW BE WILLING TO RESCIND THE MONEY IF IT WAS NOT WILLING TO DEFER THE MONEY?

Part 3: Gramm-Rudman-Hollings. This rescission proposal is an integral part of the Administration's plan to reach the congressionally mandated deficit ceilings in 1987 through 1991.

o DO YOU BELIEVE THAT AN AGENCY SHOULD BE ABLE TO PROPOSE FURTHER ALTERNATIVES (LIKE REPROGRAMMING, OR TRANSFER) IF CONGRESS HAS EXPLICITLY SAID TO MAKE THE MONEY AVAILABLE FOR OBLIGATION, AS CONGRESS DOES IN OVERTURNING A DEFERRAL?

Part 4: The Administration should propose whatever it judges best for the financial health of the nation. We are not reproposing something that we previously proposed. We are proposing an even stronger action which is vitally necessary for controlling the deficit.

FEDERAL AVIATION ADMINISTRATION SUPPLEMENTAL

o AT A TIME OF INCREASING CONCERN OVER AVIATION SAFETY, YOU TESTIFIED (HOUSE APPROPRIATIONS, FEBRUARY 6, 1986) THAT NO SUPPLEMENTAL REQUEST FOR FEDERAL AVIATION ADMINISTRATION (FAA) "OPERATIONS" WILL BE SUBMITTED. IN RESPONSE TO MY QUESTION ABOUT AN FAA SUPPLEMENTAL (SENATE BUDGET COMMITTEE, JANUARY 22, 1986) YOU LEFT THE POSSIBILITY OPEN. WE

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UNDERSTAND THE DEPARTMENT OF TRANSPORTATION HAS A SUPPLEMENTAL UNDER CONSIDERATION. WILL THE OFFICE OF MANAGEMENT AND BUDGET (OMB) CONSIDER IT ON THE MERITS, OR FORCE FAA TO LIVE WITHIN ITS CURRENT LEVEL?

Answer:

We intend to consider the FAA supplemental on its merits and have so advised the Secretary. We expect to receive her request in early March and will give it a speedy review.

SEQUESTER ORDER ON TRANSIT OPERATING ASSISTANCE

o UNDER WHAT LEGAL AUTHORITY WAS THE FEBRUARY 1 SEQUESTER ORDER WRITTEN TO REDUCE FUNDING NOTWITHSTANDING CURRENT LAWS? (EXAMPLE: TRANSIT OPERATING SUBSIDIES WERE REDUCED, DESPITE STATUTORY ALLOCATION UNDER SURFACE TRANSPORTATION ASSISTANCE ACT OF 1982.)

Answer: The February 1, 1986 sequester order to reduce funding notwithstanding current laws was written under Section 252 of P.L. 99-177.

o WHY DID OMB TELL THE MASS TRANSIT ADMINISTRATION TO APPORTION ONLY 50% OF THE TRANSIT FORMULA GRANT FUNDS WHEN CLEARLY GRAMM-RUDMAN-HOLLINGS NECESSITATED ONLY A 4.3 PERCENT CUT?

Part 2: In early January, OMB requested quarterly or semi-annual apportionments from the Department of Transportation so as to preserve sufficient funds for eventual sequestration. At the time of this request, the exact amount of the sequestration was not known. The apportionment has since been changed to provide all funds, less those sequestered, immediately.

o ON WHAT GROUNDS DID OMB ISSUE THIS PROCEDURAL GUIDANCE?

Part 3: OMB requested quarterly or semi-annual apportionments so as to ensure that sufficient funds would be available for eventual sequestration. This request was made pursuant to the authority of the Antideficiency Act (31 U.S.C. 1512).

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- WERE SIMILAR ORDERS GIVEN FOR OTHER GRANT PROGRAMS? IF SO, WHICH ONES? IF NOT, WHY WAS THIS PROGRAM SINGLED OUT?

Part 4: Virtually all 1986 Department of Transportation appropriations subject to sequestration were initially done on either a quarterly or semi-annual basis.

- WHAT IS THE STATUS OF THIS YEAR'S APPORTIONMENT FOR THIS PROGRAM?

Part 5: At the end of February, the apportionment for the Formula Grant program was changed to provide all funds (excluding $92.45 million which was sequestered) immediately.

INTEREST ON TRUST FUNDS

- A NUMBER OF HIGHWAY, TRANSIT AND AVIATION PROGRAMS ARE FUNDED FROM TRUST FUNDS. IN THE FISCAL YEAR 1987 BUDGET SUBMISSION, PROGRAM LEVELS IN THESE AREAS ARE BASED ON THE AMOUNT OF REVENUES COMING INTO THE TRUST FUNDS, EXCLUDING INTEREST. WHY IS INTEREST BEING EXCLUDED?

Answer:

Highway and transit program funding levels are equated to average annual user fee receipts, exclusive of interest, to ensure that trust fund spending does not contribute to the deficit. Interest earnings are an intragovernmental transfer and should not be treated as user fee revenue. Spending interest earnings on trust fund programs adds to Federal outlays without a commensurate revenue increase.

- SINCE INTEREST IS EARNED ON BALANCES IN THE FUNDS, WHY PROHIBIT THE USE OF EARNED INTEREST FOR PROGRAM ACTIVITIES?

These trust fund programs are not exempted from Gramm-Rudman-Hollings and other deficit reduction efforts. Therefore prohibiting expenditure of earned interest ensures that trust fund spending does not increase the deficit, while preserving the concept of spending annual user fee revenues for

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their intended program purpose. As a matter of fact, expenditure of interest earnings for these programs places an additional tax burden on the general taxpayers.

o WHEN WILL THE INTEREST EARNED BE AVAILABLE FOR USE?

Once the deficit is reduced in line with Gramm-Rudman-Hollings to zero by 1991, it will be appropriate to reconsider the trust fund spending levels.

o DOESN'T THE DELAY ON THE USE OF THESE AVAILABLE REVENUES ONLY DELAY PROJECT COMPLETION AND ULTIMATELY INCREASE THE OVERALL COST(S) OF THE PROJECT(S)?

Project completion will not be delayed or project costs increased as a result of the prohibition on expenditure of interest earnings. Project delay and cost overruns are primarily a reflection of the States' project priorities and project management capability and the time delays caused by Federal requirements. The Administration's highway and transit reauthorization bill proposes several changes to enhance States' flexibility in project/fund management and to reduce Federal red-tape.

ORIENT EXPRESS

Why is it a Federal responsibility to fund research into high-speed flight, when high-speed rail is not seen as a Federal responsibility? One of the justifications for proposing the elimination of Amtrak funding is the small percentage of the population to directly benefit. What percentage of the population will benefit from the "Orient Express"?

Answer:

The "Orient Express" concept refers to one potential long term application of a trans-atmospheric vehicle. The Federal program supporting work on transatmospheric vehicle concepts and related research is the National Aerospace Plane program. The National Aerospace Plane program is a research and technology program being conducted jointly by NASA and DOD.

The National Aerospace Plane program has been proposed because trans-atmospheric vehicle concepts offer the promise of at least a tenfold decrease in the cost of access to space and would enable important military applications. The concept would ultimately also have the long term potential for rapid and efficient global air transport.

The proposed program is focused on basic research and technology work such as propulsion, structures, materials, and the interaction of these technical disciplines. As such, the program will not attempt to produce a next generation vehicle directly suitable for any application, but to develop and test the basic technologies needed to permit follow-on development of vehicles for specific applications.

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Once the basic enabling technologies are developed, many applications would be to meet military or civil space needs, rather than private air transport. Development of vehicles for civil transport applications would likely remain a private sector responsibility, as it is today for the development of new commercial airliners.

This Governmental role is analogous to that which we maintain for other areas of aeronautics research. That is, the Federal role is to support the basic research and technology to help meet national needs which could not be adequately supported by the private sector, but to expect civil applications to be undertaken by the private sector

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QUESTIONS SUBMITTED BY SENATOR HATFIELD

Sources of Federal Deficit Change

On page 2-11 of your FY87 Budget you set forth a table that displays the "Original Reagan Budget" compared to Actual for fiscal years 1981 through 1985.

You have adjusted the numbers of the Original March 1981 Reagan Budget, however, for "further reductions proposed in the Mid-Session Review of the 1982 Budget and for accounting changes required to be consistent with the structure of the 1987 Budget."

1) Please supply the Committee with a bridge table from the numbers that actually appeared in the March 1981 Budget Revisions for the original Reagan budget to those shown on your table for "Original Reagan Budget."

1. Bridge from the March 1981 Reagan Budget to the "Original Reagan Budget":

	(dollars in billions)				
	1981	1982	1983	1984	1985
Outlays					
March 1981 Reagan Budget 1/.....	678.8	712.0	742.6	779.7	851.4
Change in the classification of medicare premiums and inland waterway receipts from receipts to outlays.....	-3.3	-4.1	-4.6	-5.1	-5.6
Social Security proposal.....	---	-4.1	---	---	---
Net effect of substituting distributed reductions for undistributed "other savings to be proposed".....	----	----	6.8	7.5	.5
Total Changes.....	-3.3	-8.2	2.2	2.4	-5.1
"Original Reagan Budget".....	675.4	703.8	744.8	782.1	846.3
Receipts					
March 1981 Reagan Budget.....	600.3	650.3	709.1	770.7	849.9
Change in the classification of medicare premiums and inland waterway receipts from receipts to outlays.....	-3.4	-4.1	-4.6	-5.1	-5.6
"Original Reagan Budget".....	596.9	646.2	704.5	765.5	844.2

Note: Totals may not add due to rounding.

1/ In the March 1981 Reagan Budget, undistributed additional savings to be proposed (magic asterisk savings) were $29.8 billion in 1983, $44.2 billion in 1984, $43.7 billion in 1985, and $42.7 billion in 1986.

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2) Please show: a) what of the "magic asterisk savings", if any, you count as unachieved savings in the "All Other" category and b) what of the OCS receipt "savings", if any, you count as unachieved savings in the "All Other" category, compared to the the estimates assumed for these items in the original (March 1981) Reagan Budget.

2. "Other Savings to be Proposed" Not Achieved:

	(dollars in billions)				
	1981	1982	1983	1984	1985
Outlays, All Other					
"Original Reagan Budget".....	180.2	161.6	142.4	133.1	127.1
Actual.....	182.0	174.5	174.1	178.3	205.2
Deviation from original.....	1.8	12.9	31.7	45.2	78.1
Deviation associated with "other savings to be proposed".....	----	----	----	----	5.5

As shown in the above table, in 1985 $5.5 billion of the unachieved savings are associated with the "other savings to be prooosed" or "magic asterisk" savings.

3. OCS Receipts:

	(dollars in billions)				
	1981	1982	1983	1984	1985
Outlays, All Other					
"Original Reagan Budget".....	-9.6	-11.0	-12.2	-13.3	-13.9
Actual.....	-10.1	-6.2	-10.5	-6.7	-5.5
Deviation from original.....	-.5	4.8	1.7	6.6	8.4

As shown, we include $4.8 billion in unachieved OCS savings in the "all other" category in 1982, $1.7 billion in 1983, $6.6 billion in 1984, and $8.4 billion in 1985.

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QUESTIONS SUBMITTED BY SENATOR LEAHY

ALTERNATIVE TO SEQUESTRATION

Q. Will the President support the alternative to the 1986 Gramm-Rudman-Hollings sequester proposed by Senator Bennett Johnston and myself, especially in light of the recent ruling by a special judicial panel that the sequester mechanism is unconstitutional?

A copy of our Dear Colleague and Senate Resolution 320 is attached. The identical Republican resolution is S. Res. 312.

January 29, 1986

Dear Colleague:

By February 1, 1986, the President will order the first round of across-the-board cuts under the Gramm-Rudman-Hollings Balanced Budget and Emergency Deficit Control Act. Under the new law, cuts in virtually every federal defense and non-defense program, amounting to $11.7 billion, will take effect on March 1, 1986. In this equation four million civilian and military federal retirees will also lose their cost of living adjustments.

The proponents of Gramm-Rudman-Hollings envisioned the automatic across-the-board cuts as an inducement for responsible Congressional action to reduce the deficit. "No one need suffer from an across-the-board reduction in a federal benefit, if Congress does its job," one of the principle authors of the legislation said at the time it was introduced. The point of the automatic, arbitrary cuts is to threaten everyone's favorite program, to force Congress to come up with a better way of reducing the deficit.

Yet, in fiscal year 1986, these automatic reductions have been accepted as inevitable, ignoring Congress's responsibility under the law to reduce the deficit in an intelligent manner. This year the cuts appear relatively slight. Many ask, why expend our scarce resources coming up with a responsible alternative to the Presidential sequester, when most domestic programs will be cut by only 4.3 percent and defense programs by 4.9 percent?

First and foremost, we need to act because Congress made a commitment to the American people. Under Gramm-Rudman-Hollings, we pledged to find a more responsible way of reducing the deficit than allowing computers to slash every program, whether efficient or wasteful, beneficial or harmful, simply to bring mathematical balance to the federal budget.

Second, the relatively slight nature of the deficit reduction required this year should not serve as an excuse for doing nothing and allowing automatic reductions to occur, but should provide Congress an opportunity to show that we can make the process work and reduce the deficit intelligently.

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Third, we cannot minimize the cuts scheduled to take effect on March 1, 1986, especially in domestic programs which have already been cut by $38 billion since 1981. As a result of this first round of cuts, there may be nine million fewer meals for the elderly, and enrollment in educational programs for disadvantaged children could drop off by 200,000. The National Institutes of Health will lose more than $300 million and low income energy assistance for those who cannot afford to heat their homes this winter will be cut by $90 million.

Some argue that Congress should allow the March 1986 cuts to occur, to give the American people a taste of what is to come. But, millions of our constituents have had more than a mouthful of cuts over the last five years. Programs that help make this country compassionate and civilized have been cut dramatically. Child care assistance for poor families that helps working parents earn a living has been cut by $2.2 billion in real terms. In addition, almost one million disadvantaged children have been denied access to the compensatory education program, and still the deficit is the largest in our history.

Congress would truly be abdicating authority over government spending and priorities, as the critics have charged, if we allow these cuts to occur without even considering an alternative.

That is why later this week we will offer an alternative to the FY 1986 automatic cuts, under the provisions of Gramm-Rudman-Hollings. The new law gives the Senate Budget Committee two days, following the President's sequester order, to affirm or disaffirm all or part of the President's order and report an alternative to the $11.7 billion in automatic cuts. And Congress has until March 1 to agree to a plan which must be signed by the President.

Our proposal would reduce the deficit by $13.3 billion this fiscal year, thus saving $1.6 billion more than the President's sequester order.

Our plan would affirm the President's cuts in defense for a savings of $5.4 billion. Faced with a legal requirement to cut defense by that amount, President Reagan used his authority under the law to establish certain priorities in the defense budget. Not all of us agree with the President's choices, but these defense reductions were carefully considered by the Pentagon and the White House and ought to be enacted.

Our plan rejects the arbitrary cuts in non-defense programs and the elimination of COLAs for civilian and military retirees and would substitute $7.9 billion in savings from reviving and passing the Consolidated Omnibus Budget Reconciliation Act of 1985. The controversial Superfund financing mechanism would be removed, leaving reductions in domestic programs that have been negotiated by the House and Senate.

The various committees of both Houses of Congress have devoted thousands of hours to hearings, difficult markup sessions and subconferences to produce a package that reduces the deficit by $2.5 billion more than the President's sequester order for domestic programs. The changes in programs, under Reconciliation, are our changes, not those prescribed by a computer.

Each day Congress fails to act on Reconciliation, another $20 million is lost. Our plan would bring Reconciliation back from the dead, reduce the deficit by $1.6 billion more than the President's sequester order, and restore Congressional responsibility in the budgeting process.

There is a better way than cutting the number of new Customs agents who lead our battle against drug trafficking by 800 or turning off the heat for thousands of needy Americans in the dead of winter. This plan is not painless. There are many individual provisions with which we do not agree, especially in the Reconciliation bill, but those sections are the product of reasoned compromise.

Some of us voted for Gramm-Rudman-Hollings and others of us vehemently opposed its passage, but we all share a commitment to act responsibly this year, by reducing the deficit of our own accord.

Attached is a description and draft copy of the legislation. If you have any questions or would like to cosponsor this measure, please contact Laura Hudson in Senator Johnston's office at 4-5824 or Janet Breslin in Senator Leahy's office at 4-4242.

Sincerely,

J. Bennett Johnston
United States Senator

Patrick J. Leahy
United States Senator

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S. Res. 320

Resolved, That (a) the sequestrations and reductions set forth with respect to accounts, programs, projects, and activities within major functional category 050 (National Defense) in the order issued by the President for fiscal year 1986 pursuant to section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) are hereby affirmed.

(b) The modifications, suspensions, sequestrations, and reductions set forth with respect to accounts, programs, projects, and activities within major functional categories other than major functional category 050 in the order issued by the President for fiscal year 1986 pursuant to section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 are hereby disaffirmed.

(c) Not later than 10 days after the date of the adoption of this resolution, the appropriate committees of the Senate shall report to the Committee on the Budget of the Senate—

(1) those changes in the laws within their jurisdiction set forth in the amendment proposed by the committee of conference in the conference report to accompany H.R. 3128, submitted December 19, 1985 (other than subtitle B of title XIII of such amendment);

(2) changes in the laws within their jurisdiction to provide for the payment of amounts withheld pursuant to section 252(a)(6)(C)(i) of the Balanced Budget and Emergency Deficit Control Act of 1985.

The Administration does not view the Consolidated Omnibus Budget Reconciliation Act of 1985 as an alternative to nondefense sequestration in fiscal year 1986. Over 3/4 of the 1986 savings in that bill come from a provision relating to offshore oil receipts that would actually increase the deficit in subsequent years. The bill also contains other provisions that increase spending. The Administration would support the Reconciliation Act of 1985 if a number of objectionable provisions were removed. However, it believes that the savings from this bill should be viewed in terms of their long-term impact, and should not be considered as ways of reducing or eliminating the need for sequestration in 1986.

ADDITIONAL QUESTIONS SUBMITTED BY SENATOR HATFIELD

ACROSS-THE-BOARD CUTS

Question: With respect to the Gramm-Rudman-Hollings sequester procedure you say:

"Across-the-board spending reductions are arbitrary and do not reflect relative priorities of different programs."

- Why then did you choose not to submit an alternative to the February 1 sequester order?

- Why did the Administration support an across-the-board cut to the Senate-reported FY 1986 Treasury, Postal Service, and General Government Appropriation Act -- that reflected the President's request for virtually every item except the higher levels for the Postal Service and IRS?

Answer:

- With nearly half of FY 1986 gone by, an alternative to the February 1 sequester order was not developed because the Administration's emphasis was on establishing clear priorities to meet the deficit targets established in Gramm-Rudman-Hollings for the next fiscal year for the President's FY 1987 Budget. The shortage of time available to develop an alternative -- the bill became law December 12 -- and the relatively small reductions involved in the FY 1986 sequester also contributed to the decision not to develop an alternative.

- Objections were raised to the Senate reported Treasury, Postal Service and General Government Appropriations bill because of substantial increases over the President's request for Postal Service and Customs Service. Although less desirable, the Administration agreed to an across-the-board reduction to the bill to keep the totals within Congressionally set budget targets after meeting Senate resistance to Postal Service and Customs Service reductions.

GRH AND COST-OF-LIVING ADJUSTMENTS

THE GRAMM-RUDMAN-HOLLINGS AMENDMENT APPLIES TO INDEXED FEDERAL PROGRAMS AND SPECIFICALLY EXEMPTS SOCIAL SECURITY COST-OF-LIVING ADJUSTMENTS.

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A NEW LEGAL SUIT HAS BEEN FILED CHALLENGING THE LEGALITY OF THE SUSPENSION OF DECEMBER 1 COLA ADJUSTMENTS THAT OTHERWISE WOULD HAVE BEEN PAYABLE OF JANUARY 1.

• WHAT WOULD BE THE INCREASE IN OUTLAYS TO YOUR BUDGET IF THE NEW CHALLENGE OF GRH WERE UPHELD?

Answer:

The effect of "unsuspending" the January 1986 COLAs, with retroactive payments, would be $1.0 billion in 1986 outlays and somewhat larger amounts in 1987 and subsequent years. The effect of negating all of GRH would presumably be to forfeit all the $11.3 billion in 1986 outlay savings, if all the money were to spend out by the end of the fiscal year, and would also add to 1987 and subsequent year spending.

• HOW MUCH LOWER WOULD SOCIAL SECURITY OUTLAYS BE IN YOUR BUDGET IF GRH SEQUESTER RULES HAD APPLIED TO SOCIAL SECURITY COLAs?

Had the January 1986 social security COLA of 3.1% been suspended, 1986 social security outlays would be $4.4 billion lower, and 1987 outlays would be $5.9 billion lower.

SUPPLEMENTALS AND RESCISSIONS

UNDER GRAMM-RUDMAN-HOLLINGS, A SUPPLEMENTAL MEASURE APPROPRIATING THE ADDITIONAL FUNDING REQUESTED BY THE ADMINISTRATION MUST BE SPENDING NEUTRAL, I.E., THE ADDITIONAL FUNDS MUST BE OFFSET BY EQUAL OR GREATER SPENDING REDUCTIONS BOTH IN TERMS OF BUDGET AUTHORITY AND OUTLAYS.

THE PRESIDENT'S BUDGET PROPOSED $1.9 BILLION IN FY 1986 SUPPLEMENTAL APPROPRIATIONS, AND INDICATES THAT OTHER SUPPLEMENTALS ARE PROPOSED FOR LATER TRANSMITTAL. RESCISSION OF $9.9 BILLION IN FY 1986 APPROPRIATED FUNDS ARE ALSO PROPOSED.

• CAN YOU PLEASE GIVE US THE FY 1986 TOTAL OUTLAY IMPACT

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OF THE ADMINISTRATION'S PROPOSED SUPPLEMENTAL FUNDING REQUESTS?

a) The FY 1987 Budget transmits supplementals totaling $1.2 billion, including the effect on budget authority of a supplemental request transferring responsibility for rural housing to the HUD voucher program. The FY 1986 outlay impact is $1.044 billion.

• CAN YOU PLEASE GIVE US THE TOTAL FY 1986 OUTLAY SAVINGS ASSOCIATED WITH THE ADMINISTRATION'S FY 1986 RESCISSION PROPOSALS? WHAT IS THE FY 1987 TOTAL OUTLAY SAVINGS ASSOCIATED WITH THESE RESCISSIONS?

b) The FY 1986 outlay savings associated with the Administration's FY 1986 rescission proposals are $1.1 billion.

The FY 1987 outlay savings associated with the Administration's FY 1986 rescission proposals are $2.7 billion.

• WHAT IS THE outlay savings TOTAL FROM THE DEFERRALS TRANSMITTED BY THE ADMINISTRATION?

c) The total outlay savings from deferrals transmitted by the Administration is estimated to be $604 million in FY 1986, and $267 million in FY 1987.

MULTIYEAR APPROPRIATIONS

IN HIS BUDGET MESSAGE, THE PRESIDENT URGES THAT SERIOUS STUDY BE GIVEN TO PROPOSALS FOR MULTIYEAR APPROPRIATIONS.

• WHAT IS MEANT BY A "MULTIYEAR" APPROPRIATIONS PROCESS?

• WHAT MERIT DOES THE ADMINISTRATION FIND IN SUCH A PROPOSAL?

• WOULDN'T A MULTIYEAR APPROPRIATIONS PROCESS WHICH

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DOES AWAY WITH ANNUAL OVERSIGHT AND ACTION BY THE CONGRESS INCREASE THE ADMINISTRATION'S DISCRETION OVER APPROPRIATIONS? (WITNESS THE $23 BILLION IN DEFERRALS JUST TRANSMITTED BY THE ADMINISTRATION.)

Answer: A multiyear appropriations process would provide full funding for certain programs for a period greater than one fiscal year. After completion of the study proposed by the President, the Administration will be able to identify the merits and effects of a multiyear process. However, no steps will be taken in this direction until the Congress has been informed fully of the findings of the study and has had the opportunity to express its views to the Administration.

Reform of the Budget Process

IN THE BUDGET MESSAGE, THE PRESIDENT PROPOSES THAT THE BUDGET PROCESS BE STRENGTHENED. HE URGES, FOR 1988 AND BEYOND, THAT THE BUDGET RESOLUTION BE CHANGED TO A JOINT RESOLUTION SUBJECT TO PRESIDENTIAL SIGNATURE AND TO ESTABLISH BINDING EXPENDITURES SUBCATEGORIES WITHIN THE RESOLUTION BUDGET TOTALS.

- IT IS CLEARLY THE ADMINISTRATION'S VIEW THAT THE BUDGET PROCESS IS IN FURTHER NEED OF REFORM. GIVEN THE ADMINISTRATION'S PARTICIPATION IN AND SUPPORT OF GRAMM-RUDMAN-HOLLINGS, WHY DIDN'T THE ADMINISTRATION INSIST ON ITS DESIRED REFORMS AS PART OF THAT ACT? WHY WAIT UNTIL 1988 TO PUSH FOR YOUR REQUESTED REFORM MEASURES?

- WHAT IS MEANT BY "ESTABLISHING BINDING EXPENDITURE SUBCATEGORIES WITHIN THE RESOLUTION BUDGET TOTALS"? WHY ARE THE CURRENT 302(B) BUDGET RESOLUTION CROSSWALK PROCEDURES, ESPECIALLY AS STRENGTHENED BY THE PROCEDURAL MECHANISMS CONTAINED IN GRAMM-RUDMAN-HOLLINGS, CONSIDERED INADEQUATE?

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Answer: Although Gramm-Rudman-Hollings incorporates certain reforms in the budget process, it does not go far enough. The Administration's participation in the drafting of Gramm-Rudman-Hollings was minimal. There was no opportunity to insist on major reforms because the legislation was coupled with an increase in the debt ceiling limit that was necessary to keep the Government operating and moved on an exceedingly fast track. The Administration will not wait until 1988 to push for reform measures -- we are beginning now -- but it is unlikely that any major reform can be implemented earlier than the 1988 budget process, which will begin this calendar year, in August.

The changes made by Gramm-Rudman-Hollings to the 302(B) budget resolution crosswalk procedures strengthen that important aspect of the budget process, but they are still only rules of the Congress that may be waived. By making the budget resolution a joint resolution, the President's formal participation in arriving at the budget totals and subcategories of expenditures would be required, and those amounts would become matters in law. This would make the crosswalk amounts binding on the subcommittees as they take up individual appropriations bills.

RESCISSIONS, DEFERRALS AND DOD

YOU HAVE TRANSMITTED $9.9 BILLION IN PROPOSED RESCISSIONS IN NON-DEFENSE PROGRAMS FOR FY 1986.

Question: Of the $278.4 billion in (post-sequester) new BA available to the Department of Defense, couldn't you find as much as a dollar in programs worthy of rescissions?

Answer: The FY 1986 post sequester Gramm-Rudman-Hollings Defense level ($278.4 billion) represents a $16 billion reduction below the FY 1986 Budget Resolution Compromise agreed to by the President and the Congress in August 1985. Congress actually cut the FY 1986 program by $5 billion

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below the resolution level, and another $11 billion was cut under the Gramm-Rudman-Hollings sequester. This represents a real decline of a 5.8% in Defense. I do not believe that rescissions are possible or warranted.

Deferral of Funds in the DoD Bill

Question If your outlay estimates are so much lower than CBO's estimates you must be obligating funds at a much slower rate. Why are there no reported deferrals of the funds appropriated in the DoD bill?

Answer: While it is true that outlays are a function of obligations, there are many other factors which can cause outlays to slow down without any significant change in obligations. For example, Defense last year lowered the progress payment rate by 10% for new contracts. Thus, until the final year of payment, outlays will be 10% lower without any obligation change. There is no need to defer funds appropriated in the DoD bill.

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Deferral of Funds Available for Transfer

Question: Section 8103 of the DoD Appropriations Act, 1986 authorizes the Secretary of Defense to transfer up to $6.3B in specified funds considered to be in excess of the need for which they originally were appropriated. Why weren't these funds reported in an FY 1986 deferral message?

Answer: Section 8103 requires that the $6.3B be utilized for certain purposes including military pay raise, readiness, the mariner fund, etc. These requirements will make deferral unnecessary.

Deferral of DoD Funds Other Than Military Construction and Family Housing

Question #16d: Other than those for Military Construction and Family Housing there were no deferrals of Defense Department funds reported by the Administration for FY 1985 or for FY 1986. Were there in fact no deferred funds? Or are you holding DoD to a different reporting standard than the rest of the Government?

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Answer: It is correct that except for Military Construction and Family Housing there were no deferrrals of DoD funds in FY 1985 or FY 1986. OMB uses the apportionment process and works closely with DoD to make sure DoD's fund control system allows for an efficient allocation of funds. DoD is not on a different standard from the rest of the government. However, in the past this Administration has made deferrals in other Defense areas and will continue to do so, when necessary.

Excess Defense Funds

Question Secretary of Defense Caspar Weinberger identified $4.5 billion in DoD "excess" unobligated balances and "inflation savings" in "back-up materials" during Senate markup of the FY 1987 DoD Authorization Act, 1985. Why were none of these funds reported to Congress in a deferral message during FY 1985?

Answer: The Congress (SASC) was informed of the excess Defense funds as soon as they were identified by

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the Department of Defense. At that time, the Secretary of Defense did not consider deferrals the most appropriate means by which to dispose of these resources. Rather, both the Congress and the Secretary agreed that it would be more effective to utilize these funds to finance high priority Defense program requirements.

CREDIT BUDGET: DEFENSE DEPARTMENT

IN YOUR FY 1986 BUDGET YOU ESTIMATED NATIONAL DEFENSE DIRECT LOANS OUTSTANDING OF $8 MILLION IN FY 1985, $13 MILLION IN FY 1986, AND $17 MILLION IN FY 1987.

YOUR FY 1987 BUDGET SHOWS $1,321 MILLION IN FY 1985, $1,765 MILLION IN FY 1986 AND $1,740 IN FY 1987.

Question Why is there such an enormous disparity between the estimates in the FY 1986 Budget and those of your FY 1987 Budget?

Answer: The large increase in National Defense direct loans outstanding between the FY 1986 Budget and the FY 1987 Budget is caused by the inclusion of the Navy's TAKX and T-5 ship lease program. This

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credit program was not included in the FY 1986 Budget due to administrative oversight.

RESCISSIONS AND DEFERRALS: ANNUAL CONTRIBUTIONS TO ASSISTED HOUSING

YOUR THIRD SPECIAL MESSAGE OF PROPOSED RESCISSIONS AND DEFERRALS FOR FY 1986 (H. Doc. 99-161) SETS FORTH TOTAL BUDGETARY RESOURCES OF $10,734,106,167 FOR THE "CONTRIBUTIONS FOR ASSISTED HOUSING" ACCOUNT.

YOU REPORT A DEFERRAL OF $7,032,442,637 OF THESE FUNDS (D86-41) AND PROPOSE A RESCISSION OF $4,416,131,175 (R86-52). THE COMBINED TOTAL OF YOUR DEFERRAL AND YOUR PROPOSED RESCISSION IS $11,448,573,812.

- WHY DOES THIS TOTAL EXCEED THE REPORTED BUDGETARY RESOURCES BY $714,442,637?

- FURTHERMORE, YOUR BILL LANGUAGE WOULD RESCIND $4,413,439,643, A LOWER AMOUNT THAN YOUR TABLE SHOWS. WHY?

Four separate apportionment documents affect the proposed rescission for the Annual Contributions for Assisted Housing appropriation account. The four apportionments are titled: Annual Contributions for Assisted Housing, Budget Authority, Annual Contributions for Assisted Housing, Contract Authority, Rental Rehabilitation Grants, and Rental Development Grants. The apportionment status of these accounts at the time of the release of the President's 1987 Budget is shown in Table 1. (Note that the total resources shown on rescission proposal R86-52 should reflect resources available in all four accounts as shown below.)

Table 1

	Estimated total available resources	Made available for obligation	Withheld Pending Rescission	Deferral
Annual Contributions for Assisted Housing (Budget Authority)	10,734,106,167	3,741,349,030	4,269,880,642	2,722,876,495
Annual Contributions for Assisted Housing (Contract Authority)	640,533	0	640,533	0
Rental Rehabilitation Grants	87,471,360	12,471,360	71,775,000	3,225,000
Rental Development Grants	77,400,000	320,000	73,855,000	3,225,000
Total	10,899,618,060	3,754,140,390	4,416,151,175	2,729,326,495

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Confusion has arisen from the simultaneous submission of a deferral (D86-41) that also affects the Annual Contributions for Assisted Housing account. In order to preserve the President's options in light of the Gramm-Rudman-Hollings legislation, $7,032,442,637 was deferred in an Annual Contributions for Assisted Housing, Budget Authority apportionment on December 24, 1985. The December 1985 deferral amount has changed, however, as a result of more recent apportionment action taken on January 27, 1986. The January 27, 1986 reapportionment actions reduced the total amount deferred primarily by converting the funds from deferral status to the "withheld pending rescission" status, but also by making some of the funds available for obligation.

It is important to note that when the accounts are reapportioned on or about March 1 to reflect the withdrawal of funds subject to the Gramm-Rudman sequestration order, that the total budgetary resources for Rental Rehabilitation Grants and Rental Housing Development Grants will be reduced and that the amounts deferred will go to zero. Both the total resources available and the proposed deferral for Annual Contributions for Assisted Housing will be reduced by $422,071,000.

The appropriations language accompanying the rescission proposal requests a rescission of new budget authority of $4,413,430,643, including the funding for Rental Rehabilitation Grants and Rental Housing Development Grants. The second proviso of the appropriations language would rescind resources becoming available through recaptures of prior year obligations in the Rental Housing Development Grants program. These are estimated to equal $2,000,000 dollars during 1986. The budget also proposes to rescind unobligated balances of budget authority in the Rental Development Grant program totaling $80,000. The $640,533 of Annual Contributions contract authority shown in rescission proposal R86-52 will now be released for obligation in order to provide both the contract authority and budget authority required to support the 1986 subsidized housing program (basically 50,000 vouchers) proposed in the 1987 budget.

SECURITY OF EMBASSIES AND CONSULATES OVERSEAS

YOUR BUDGET PROPOSES A FY 1986 SUPPLEMENTAL OF $707 MILLION AND A TOTAL PROGRAM OF $4.4 BILLION FOR ENHANCED EMBASSY AND CONSULATE PROTECTION OVERSEAS.

● IS NOT THE BASIC SECURITY OF EMBASSIES PRIMARILY A RESPONSIBILITY OF THE HOST-NATION RATHER THAN THE STATE DEPARTMENT?

ANSWER:

Yes, the host government has primary responsibility for the protection of our facilities and employees at our diplomatic missions. This responsibility is stipulated in the Vienna Convention. However, our security requirements abroad frequently exceed the protection a host government is capable or willing to

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provide, and we often must supplement the host government's efforts.

The basic foundation of any security program must be strong and secure office buildings. Only the United States can provide them up to the special security standards we require. Furthermore, only we can protect our facilities from electronic or personal penetration by certain foreign governments who are employing increasingly sophisticated and daring techniques to steal our nation's secrets. We must make special efforts to protect the integrity of our computer and telecommunications systems overseas inside our embassies. In some cases we must provide personal protection and armored vehicle protection for our people who face serious threats.

Security activities such as these have been judged to be necessary additions to the basic protection provided by the host governments. Today's terrorist threat requires this extra measure of safety.

Rescission of Funds for Indian Sanitation Facilities

YOUR RESCISSION R86-30 PROPOSES THE ELIMINATION OF $38,642,000 IN FUNDS FOR INDIAN HEALTH FACILITIES. YOUR PROPOSAL, AMONG OTHER EFFECTS, WOULD REDUCE FROM 2,900 TO 700 THE NUMBER OF INDIAN HOMES THAT WOULD RECEIVE SANITATION FACILITIES IN FY 1986, FOR A SAVINGS OF $19,456,000.

• WHAT ECONOMIC ANALYSIS DID YOU USE TO DETERMINE THAT A $115 THOUSAND OUTDOOR RACQUETBALL COURT IN HONDURAS IS MORE IMPORTANT TO YOUR BUDGET THAN SANITATION FACILITIES FOR NATIVE AMERICANS?

Answer:

Consistent with the President's FY87 budget proposal to focus Indian Health Service resources on direct medical care, the Administration believes that agencies funding the basic housing construction or renovation should also provide funds for the provision of sanitation facilities. Such an approach strengthens the planning and coordination of Indian housing and sanitation projects and avoids problems that may arise from programs being funded by different appropriations bills. The Administration recognizes IHS's proven record of administering the construction of sanitation facilities and believes Federal agencies and Indian tribes should continue to draw upon this expertise.

The raquetball court referred to in the question is funded by FY86 Army operations and maintenance funds. The purpose of the facility is to provide minimal physical recreation facilities for military personnel assigned to an isolated overseas post. This is essential to their health and contributes to maintenance of combat readiness.

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Where is Tax Reform?

The keystone of the President's domestic policy initiatives for the 99th Congress is tax reform. Last year the President's tax reform proposal was submitted to Congress after submission of the FY 1986 budget.

You dismiss failure to include any estimates of the President's major domestic policy with the following throw-away sentence on page 4-12 of your budget:

"Because it will be revenue neutral, it is not essential that it be reviewed at this time in the budget."

- Why did you not include any estimates of the President's major domestic policy initiative in your budget?

- Could it be that the President's proposal is in fact a revenue loser?

- Please submit to this Committee an estimate, consistent with the economic forecast in your budget, of the revenue effects on current law of <u>all</u> the President's tax proposals.

Answer:

Fundamental tax reform is a top priority of the President, who looks forward to working with Congress to produce acceptable tax reform legislation this year.

The President has made a commitment to <u>revenue neutrality</u> as a firm underpinning of fundamental tax reform. As you know, the House-passed tax reform bill fails in many respects to meet the President's minimum requirements for an acceptable bill. Many of the improvements suggested by the President would entail a significant loss of revenues. In order to maintain his committment to the revenue neutrality of a tax reform bill, he would be willing to consider a tax on imported petroleum as part of such a bill, if it included his suggested changes. It should be emphasized, however, that it is only in the context of producing a revenue-neutral tax reform bill that he would be willing to consider supporting an oil import fee.

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Because it is unlikely that the President's tax reform proposal submitted to Congress last year will be enacted with no changes, and because of the President's commitment to revenue neutrality as a firm underpinning of tax reform, the Office of Tax Analysis at Treasury has not reestimated the President's proposal under the Administration's current economic forecast.

Timely Submission of Budget Estimates

• Why did the Administration wait until February 3 to submit an urgently needed supplemental for the Commodity Credit Corporation?

The Administration informed Congress in December 1985, as to the CCC's need for additional funding. At the time we were requesting permanent, indefinite language which we still believe is the most appropriate method for funding the CCC. Originally we planned to submit our request along with the rest of the President's budget. It was not until it became certain that CCC would exhaust its funding before scheduled submission of the budget that we decided to expedite the formal request. However, Congress was told that the funds it provided in the last supplemental would not last well beyond January.

• During consideration of the FY 1986 Treasury, Postal Service, and General Government Appropriations Act, the Administration measured subcommittee action against an estimated $180 million supplemental. If you knew of the requirement why did you wait until February 6 to notify formally Congress of it?

The Administration's formal request for additional funding for the Commodity Credit Corporation has been before Congress since early last year in the form of a request for permanent,

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indefinite authority. Congress has instead chosen to continue funding CCC on a piecemeal basis. Each time an additional supplemental passes USDA has given the committies its best estimate on how long that money will last so that Congress has an idea of when it will have to act again. USDA informed Congress that the appropriation of $13.2B in December would run out in early February. The fact that it did should not have been a surprise.

• ARE YOU CONSIDERING SUPPLEMENTAL REQUESTS IN ADDITION TO THOSE INCLUDED IN THE BUDGET SUBMISSION? IF SO, WHAT ARE THEY AND WHEN DO YOU EXPECT TO BE TRANSMITTING THEM?

Answer: We continuously review supplemental requests from the agencies. If we determine that a particular set of circumstances warrants additional funding, a supplemental request will be transmitted at that time.

GRH AND THE FY 1986 DEFICIT

THE MAXIMUM DEFICIT IN THE GRAMM-RUDMAN-HOLLINGS AMENDMENT FOR FY 1986 IS $171.9. YOUR BUDGET DOCUMENT SHOWS AN FY 1986 DEFICIT OF $202.8 BILLION, OR $30.9 BILLION IN EXCESS OF THAT FIGURE.

• WHY DID YOU SUBMIT A BUDGET WITH A DEFICIT IN EXCESS OF THE MAXIMUM ALLOWABLE AMOUNT?

Answer:

Section 241 of the Balanced Budget and Emergency Deficit Control Act of 1985 requires the President to transmit his budget "in such a manner as to ensure that the deficit for such fiscal year shall not exceed the maximum deficit for such fiscal year as determined under paragraph (7) of section 3 of the Congressional Budget and Impoundment Control Act of 1974. [Emphasis added.]" The FY 1987 budget that the President sent to the Congress on February 5 meets this requirement. The deficit that the President proposed for 1987 is $143.6 billion, $0.4 billion below the maximum.

• WHAT IS YOUR STATUTORY AUTHORITY FOR NOT MEETING THE FY 1986 MAXIMUM ALLOWABLE DEFICIT AMOUNT?

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The Balanced Budget Act was not signed into law until December 12, 1985 -- 2-1/2 months after the start of FY 1986. The rules for FY 1986 are somewhat different than the rules for FY 1987 and subsequent years. For FY 1986, sequestration does not go into effect until March 1, five months after the start of the fiscal year. The law limits the outlay savings from sequestration to $11.7 billion. If the Congress had meant the deficit of $171.9 billion to be absolutely binding for 1986, they would not have put a limit on the outlay savings to be achieved through sequestration.

OIL PRICES: THE STRATEGIC PETROLEUM AND THE NAVAL PETROLEUM RESERVES AND OCS

OIL PRICES ON THE SPOT MARKET HAVE FALLEN FROM $26.30 PER BARREL ON DECEMBER 31, 1985 TO $14.80 ON FEBRUARY 18. WHEN ASKED BY AN ASPIRING INVESTOR ON THE BEST WAY TO MAKE MONEY ON WALL STREET, BERNARD BARUCH ADVISED, "BUY LOW; SELL HIGH."

• DOES IT MAKE GOOD ECONOMIC SENSE TO SELL THE PROVEN OIL RESERVES OF THE NPR WITH OIL PRICES AT THESE ROCK BOTTOM LEVELS?

Answer:

Yes. Any party interested in buying the oil fields at Elk Hills or Teapot Dome would, of course, assess them in terms of the income they are likely to bring over the long term. The offers we receive for the fields would consequently reflect investors' expectations for future oil prices.

The question implies that oil prices are at a temporary low and that they are likely to rise over time. If buyers in the market share that view, they are certain to reflect it in the price they offer us for the fields.

The Government is currently selling the oil produced at these fields competitively, with an auction of the oil held each year. Selling the fields outright should give the Federal Government roughly an equivalent amount of money.

In fact, selling the fields outright may give the Government more money, since private owners may run the fields more efficiently and aggressively, with a singleminded focus on cost minimization, and they will reflect this in the amounts they bid for the reserves.

• YOU HAVE PROPOSED A CONTINUED MORATORIUM ON SPR ACQUISITION. SHOULDN'T WE BE FILLING THE STRATEGIC PETROLEUM RESERVE AT THESE BARGAIN PRICES?

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Answer:

A decline in oil price levels does not, by itself argue for continued fill of the Strategic Petroleum Reserve. Strategic Petroleum Reserve fill decisions need to be forward-looking in nature, taking into account anticipated trends in future oil prices, the perceived nature of supply disruption risks, availability of private or foreign government oil inventories and surge production capacity to mitigate risks, and the cost to the taxpayer for borrowing the funds and paying the interest costs associated with added investment in the Strategic Petroleum Reserve.

- WHAT WAS THE OIL PRICE ESTIMATE YOU USED IN CALCULATING YOUR ESTIMATES OF RENTS AND ROYALTIES FROM OCS SALES?

Answer: Bonuses are dependent on prices during the anticipated period of production in 1992 to 2020. For the Gulf of Mexico and Atlantic areas a $28 per barrel price was assumed. For Alaska and California, $25 per barrel was used.

Royalty assumptions were:

FY	Oil Price ($/bbl)	Gas Price ($/MCF)
1986	25.08	2.60
1987	24.06	2.52
1988	23.63	2.77
1989	23.98	3.02
1990	24.69	3.35
1991	25.25	3.69

SECTION 515 RESERVES

SECTION 515 OF THE TREASURY, POSTAL SERVICE AND GENERAL GOVERNMENT APPROPRIATIONS ACT, 1986 REQUIRES THAT 10 PERCENT OF THE FUNDS FOR CONSULTING AND MANAGEMENT SERVICES BE PLACED IN RESERVE AND WITHHELD FROM OBLIGATION.

- WHAT ARE THE TOTAL SAVINGS YOU ESTIMATE FROM SECTION 515?

- WHY ARE THESE FUNDS NOT REPORTED TO CONGRESS IN A SPECIAL MESSAGE AS REQUIRED BY THE IMPOUNDMENT CONTROL ACT?

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Answer: The reductions required by section 515 are not available for obligation due to Congressional action. No special messages are required by the Impoundment Control Act for amounts deferred or rescinded by the Congress.

We have not estimated total savings under section 515 because section 1114 of Title 31 of the United States Code requires that the head of each agency transmit information on amounts requested for consulting services in their budget justifications submitted each year to the Committees on Appropriations of both Houses of Congress. However, OMB felt that the section 515 reduction provision was obscure and could be missed. Therefore, OMB pointed out the consulting services reductions required by section 515 and reminded the agencies to report the amount of the reductions to their committees. (See OMB Bulletin No. 86-1, Supplement 2).

Growth Assumptions

In the March 3, 1986 issue of FORTUNE magazine, that journal's chief economist forecasts that, contrary to administration budget assumptions, corporations are not going to build up their inventories nor restrain imports. As a result, domestic economic growth will fall short of your 4% projection to just around 2% annual growth.

- Now that we are living with Gramm-Rudman-Hollings, don't these "optimistic" economic assumptions, including underestimated defense outlays, do a lot of damage to our ability to estimate the size of the deficit and implement a realistic budget?

- After all, aren't we all trying to avoid automatic sequestrations?

- Or would you rather create more confusion by "stacking the numbers" and stalling a decision by the Congress until the next sequestration order is triggered?

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Answer:

I am a strong supporter of Gramm-Rudman-Hollings. I want to see it work. I want to achieve the deficit targets. It is far preferable to achieve the deficit targets by carefully considered specific deficit reduction measures, rather than by an across-the-board sequestration. Everyone in the administration shares that view. We want to achieve the GRH targets without triggering automatic sequestration. Our budget proposals, our budget estimates, and our economic assumptions all reflect that desire. If it begins to look as though we might miss the mark somewhat, due to economic developments, say, we will make whatever "mid-course correction" is necessary to get back under the deficit target.

FOREIGN INVESTMENTS

OVER THE PAST FIVE YEARS NUMEROUS EXPERTS HAVE TESTIFIED BEFORE THIS COMMITTEE ABOUT THE ENORMOUS AMOUNT OF FOREIGN INVESTMENT IN THE U.S. WHICH HAS SERVED AS A BUDGETARY "CRUTCH" ALLOWING GROWTH TO CONTINUE WITH VERY LITTLE IMPACT ON INFLATION. CURRENT ESTIMATES INDICATE THAT FOREIGN INVESTMENTS IN THE U.S. REMAIN QUITE HIGH; $230 BILLION, OR ABOUT 15% OF THE TREASURY'S $1.5 BILLION IN SECURITIES IS HELD BY FOREIGNERS; LAST YEAR ALONE FOREIGN INVESTORS FINANCED 19% OF THE GOVERNMENT'S NEW BORROWING REQUIREMENTS (NY TIMES 2/3/86). IF IN FACT WE ARE SUCCESSFUL IN REDUCING THE DEFICITS, INTEREST RATES WILL FALL AS A RESULT AND FOREIGNERS WILL WITHDRAW THEIR MONEY FROM U.S. MARKETS CREATING AN ENORMOUSLY UNSTABLE MONEY SUPPLY. WHILE I AM NOT SUGGESTING WE DEFERR OUR EFFORTS TO REDUCE THE DEFICIT, I AM WONDERING IF THE ADMINISTRATION HAS DONE AN ANALYSIS OF SUCH A DEVELOPMENT AND POSSIBLE RESPONSES.

Answer: Falling interest rates in the United States will not necessarily cause foreign investors to withdraw their funds from the United States. The first effect of a drop in U.S. interest rates on foreign investment should be to slow down the rate at which foreigners wish to add to their stock of U.S. assets, but need not lead to a net withdrawal. Moreover, such a slowdown is absolutely essential if the U.S. trade deficit, which is now running at well over $100 billion a year, is ever to be eliminated. The increase in foreign investment in the U.S. is the financial counterpart of the increase in the trade deficit that has occurred over the past few years. If we succeed in reducing the trade deficit, we will necessarily also be reducing the net inflow of foreign capital. The need to foster this needed improvement in our trade deficit is one more reason why Congress needs to act to bring down the Federal budget deficit.

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The fear that a decline in foreign investment would make the money supply unstable is groundless. The Federal Reserve System has the tools to control the money supply regardless of changes in foreign holdings of U.S. assets.

Tax Expenditures

ONLY IN THE SPECIAL ANALYSIS G OF THE PRESIDENT'S BUDGET IS THERE ANY SUBSTANTIAL DISCUSSION OF TAX EXPENDITURES, THE MULTIPLICITY OF TAX BREAKS CONGRESS HAS ENACTED OVER THE YEARS FOR VARIOUS PURPOSES. THOSE TAX EXPENDITURES, WHICH IN FY 1987 ARE PROJECTED AT $106 BILLION FOR CORPORATIONS AND $397 BILLION FOR INDIVIDUALS, OBVIOUSLY CONTRIBUTE TO THE DEFICIT, BUT THEY ARE NOT OFTEN DISCUSSED IN THE PUBLIC DEBATE ON DEFICIT REDUCTION, AND ARE NOT ADDRESSED BY GRAMM-RUDMAN-HOLLINGS AT ALL.

• IF WE ARE BEING ASKED TO MAKE SUBSTANTIAL SPENDING REDUCTIONS IN A NUMBER OF PROGRAMS IN THE NAME OF DEFICIT REDUCTION, SHOULDN'T WE ALSO LIMIT THE AMOUNT OF REVENUE WE LOSE? WOULD YOU SUPPORT AN ANNUAL CAP ON TAX EXPENDITURES UNTIL WE HAVE A BALANCED BUDGET?

Answer:

As you know, fundamental tax reform is a top priority of the President. Last year President Reagan transmitted his proposal to overhaul our tax code to the Congress. It was designed to restore simplicity and fairness to the Federal income tax and to promote economic growth.

Under the President's proposal the complex system of itemized deductions, exclusions, and special tax credits would be substantially simplified and reformed. In fact, more than 65 categories of preferential tax treatment (tax expenditures) would be eliminated or curtailed. Only a limited number of special deductions and exclusions would be retained -- principally those that are widely used and generally judged to be central to American values, and those for which there is a clear national security interest.

The increased receipts resulting from these proposed changes would make it possible to eliminate the present system of 14 individual income tax brackets, with tax rates ranging from 11 to 50 percent. In its place would be a simple 3-bracket system with tax rates of 15, 25, and 35 percent. The personal exemption would be increased to $2,000, the zero bracket amount for individuals would be increased to $2,900 for single returns and to $4,000 for married couples filing a joint return, and the maximum corporation income tax rate would be reduced to 33 percent.

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The President is opposed to implementing new taxes to reduce the deficit and therefore does not support an annual cap on tax expenditures. He instead feels that many of these tax expenditures should be eliminated or curtailed through fundamental tax reform legislation, and the increased receipts used to lower marginal tax rates for all Americans.

Reductions in Safety Net Programs

You have repeatedly stated in public appearances that one of the guiding principles of your budget is, to use your words from a "Meet the Press" interview, that it "protects programs for the poor and elderly." In your February 5 press briefing when the budget was unveiled, you stated that there were just $700 million in FY 1987 outlay reductions in the low income area.

Yet it turns out that you have included only a handful of programs in your low income list -- mainly just AFDC, SSI, food stamps, WIC, veterans pensions, and energy assistance. When you said that there were just $700 million in low income reductions, you did not include your proposed reductions in Medicaid, subsidized housing, housing for the elderly and the handicapped, the Job Corps, the Work Incentive Program, the Legal Services program, the low income weatherization program, the emergency food and shelter program, the temporary emergency food assistance program, and others. By one estimate, if all your reductions in the full range of low income programs are added up, the total is $8 billion in low income program reductions next year, not $700 million.

- Please explain how you can claim that programs for the poor are being protected under your budget, and please also tell us if you believe Medicaid and the other programs I just mentioned really are not low income programs?

Reductions in Safety Net Programs

Just this month, in his call for a study aimed at

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REFORMING THE WELFARE SYSTEM, PRESIDENT REAGAN SAID THAT THERE WERE $110 TO $120 BILLION IN PROGRAMS DESIGNED TO ASSIST THOSE WITH LOW INCOMES. YET IN ARGUING THAT THERE WERE ONLY $700 MILLION IN REDUCTIONS IN THE LOW INCOME AREA, YOU USED A TRUNCATED LIST OF ONLY $40 BILLION IN PROGRAMS.

• HOW CAN YOU USE A LIST OF ONLY $40 BILLION WHEN THE PRESIDENT'S LIST IS THREE TIMES THIS LARGE? IF YOU USE THE PRESIDENT'S LIST, IS THE TOTAL SUM OF THE CUTS YOU'VE RECOMMENDED CLOSE TO $8 BILLION NEXT YEAR, AS SOME HAVE SAID?

TERMINATION OF LOW INCOME PROGRAMS

IT IS MY UNDERSTANDING THAT YOU PROPOSE TO ELIMINATE ABOUT A DOZEN LOW INCOME PROGRAMS, INCLUDING TWO EMERGENCY FOOD ASSISTANCE PROGRAMS, LOW INCOME WEATHERIZATION, SECTION 202 HOUSING FOR THE ELDERLY AND THE HANDICAPPED, THE COMMUNITY SERVICES BLOCK GRANT, THE WORK INCENTIVE PROGRAM, LEGAL SERVICES, FARM LABOR HOUSING, AND OTHERS.

• HOW CAN YOU PORTRAY THE BUDGET AS BEING COMPASSIONATE TOWARD THE ELDERLY AND THE POOR AND PREPARE TO TERMINATE ALL THESE LOW INCOME PROGRAMS?

Answer:

Both of these questions reflect a concern for the needy, a concern the Administration shares. In preparing our budget, we protected benefits for the needy, and that is the point I have been stressing.

Taken together, means-tested cash and near-cash benefit programs that help the low-income population meet basic needs would cost $84 billion in 1987 under current services.* Changes that directly affect beneficiaries would reduce this amount by about one percent, a little over a billion dollars.

- o About half of this amount would come from terminating school meal subsidies for families with incomes over 185

*AFDC, SSI, Food Stamps, Child Nutrition, Medicaid, WIC, subsidized housing programs in HUD and USDA, Refugee and Entrant Assistance, Low-Income Home Energy Assistance, and Veterans Pensions.

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percent of the poverty level. Benefits for children whose families' incomes are below this level would not be changed. (Because 85 percent of current Federal School Lunch subsidies are for these low-income families, schools would continue to receive substantial Federal assistance. Thus, there is no need to subsidize upper income families to assume the availability of free lunches to the needy.)

- Most of the remainder is divided among three other initiatives.

  -- First, we would require Aid to Families with Dependent Children (AFDC) and Food Stamp beneficiaries to participate in work-related activities as a condition of applying for and receiving benefits. This initiative would help those on the rolls gain skills and experience useful in securing private-sector employment, thereby reducing welfare dependency.

  -- Second, we would roll back Food Stamp expansions enacted in the farm bill but not yet in place. These expansions overturn reforms enacted in 1981.

  -- Third, we would implement two well-targeted reforms in AFDC designed to promote family life and decrease welfare dependency. One requires minor mothers to live in their parents' home, improving both their and their babies' chances for a good life and reducing the incentive to break up families. The other discontinues parents' benefits when a child reaches 16, a change that would conform AFDC rules to those in Social Security and encourage parents of older children to find work.

- All other changes we are proposing in means-tested benefit programs would not affect beneficiaries:

  -- In the assisted housing programs, there would be no change in the out-of-pocket costs now paid by tenants. The number of households assisted would increase from 5.4 million in 1985 to 5.9 million in 1991.

  -- Our Medicaid reforms would reduce reimbursements to the States while providing them with added flexibility to control costs. States determine benefits and eligibility. They will have substantial latitude to decide on the changes they will make, and can achieve the budget savings through provider reimbursement reforms, greater use of comprehensive, pre-paid health plans and other managed forms of health care, and similar actions.

  -- Our proposed funding for WIC is set at an amount sufficient to fund the anticipated 1986 year end workload. We would encourage States to serve a greater proportion of high-risk eligibles by making gradual adjustments in State allocation formulas.

  -- We are proposing no changes in the Veterans Administration (VA) pension programs and would fund Low-Income Home Energy Assistance at $2.1 billion, the same level as in 1986 before the Gramm-Rudman-Hollings sequester.

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It is important to indicate that protecting benefits for the needy is only one component of a three-part Administration strategy for helping the low-income population meet their basic needs. The other two components are:

- o Continued non-inflationary economic growth, which will preserve poor peoples' purchasing power and expand opportunities for employment; and

- o Tax reforms that will exempt virtually all of those with incomes below the poverty level from having to pay Federal income taxes.

With the exception of housing programs, no terminations are proposed in the programs discussed above. In assisted housing, we are proposing housing vouchers as an alternative to housing construction. Under our proposal, as I noted above, the number of families served would increase from 5.4 million in 1985 to 5.9 million in 1991.

In other cases where we are terminating programs, either our budget proposes an alternative means of dealing with the problem the program is designed to address or other sources of assistance are available. For example, as an alternative to WIN, we are proposing the Work Opportunities Initiative discussed in my answer to question 42. An example of a program for which other sources of maintenance are available is the low-income weatherization program, which is funded at $178 million in 1986. In 1987, States are expected to receive up to $3 billion through settlement of petroleum pricing violation cases, and these funds will be available to help finance weatherization and other energy-related activities.

Termination of Low Income Programs

I AM ESPECIALLY CONCERNED ABOUT YOUR PROPOSAL TO REQUEST NO FUNDS FOR THE EMERGENCY PROGRAMS TO DEAL WITH HUNGER AND HOMELESSNESS. I WORKED HARD ON THE SENATE FLOOR LAST YEAR TO FASHION A COMPROMISE REGARDING FUNDS FOR THE TEFAP PROGRAM, THE PROGRAM THAT PROVIDES FUNDS TO STATE AND LOCAL AGENCIES, FOOD BANKS, AND SOUP KITCHENS TO HELP DEFRAY PART OF THE COSTS THEY INCUR IN STORING AND DISTRIBUTING SURPLUS GOVERNMENT FOODS TO THE NEEDY. WE EVEN PLACED A PROVISION FOR A NEW STATE MATCHING REQUIREMENT INTO THE LEGISLATION. YET YOU NOW PROPOSE TO TERMINATE FUNDING FOR THE PROGRAM ALTOGETHER, TO JUST CUT IT OFF.

• DON'T YOU THINK THIS WILL CAUSE SOME OF THESE FOOD BANKS AND SOUP KITCHENS TO BE UNABLE TO DISTRIBUTE THE SURPLUS FOODS?

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WON'T THIS RESULT IN MORE FEDERAL SURPLUSES PILING UP IN WAREHOUSES WHILE MORE NEEDY PERSONS GO HUNGRY?

MORE ON HUNGER AND HOMELESSNESS PROGRAMS

IN THE PRESIDENT'S STATE OF THE UNION ADDRESS, HE PRAISED A YOUNG BOY FROM PHILADELPHIA WHO HAD HELPED SPUR LOCAL CHARITABLE EFFORTS TO PROVIDE SHELTER FOR THE HOMELESS AND TO FEED THE HUNGRY. BECAUSE THE NEED IS GREAT IN THIS AREA, THE CONGRESS HAS FOR SEVERAL YEARS APPROPRIATED MONEY FOR THE EMERGENCY FOOD AND SHELTER PROGRAM, A UNIQUE PROGRAM IN WHICH A NATIONAL CHARITABLE BOARD OF THE SALVATION ARMY, UNITED WAY, CATHOLIC CHARITIES AND OTHER ORGANIZATIONS DISTRIBUTES THE FUNDS TO LOCAL AGENCIES AND CHARITIES FOR EFFORTS TO COMBAT HUNGER AND HOMELESSNESS. BECAUSE OF ITS UNIQUE STRUCTURE, ADMINISTRATIVE COSTS ARE EXTREMELY LOW IN THIS PROGRAM -- NEARLY ALL THE MONEY GOES RIGHT OUT TO THE LOCAL COMMUNITIES. WE PROVIDED $70 MILLION FOR THE PROGRAM THIS YEAR; YOU PROPOSE ZERO FOR NEXT YEAR.

• DO YOU BELIEVE THAT THERE IS NO LONGER A PROBLEM OF HUNGER OR HOMELESSNESS OR THAT THE CHARITIES CAN PICK UP ALL THESE COSTS BY THEMSELVES?

Answer:

Both of these questions deal with emergency programs which provide food and shelter to those in need. The Administration is concerned about these people. Indeed, we have undertaken a number of special initiatives which demonstrate that concern, and I welcome the opportunity to tell you about these initiatives in the course of explaining our budget decisions on the Temporary Emergency Food Assistance and Shelter (TEFAP) program and the Federal Emergency Management Agency's (FEMA's) Emergency Food and Shelter program.

As the questions indicate, the budget proposes to terminate the FEMA program and subsidies for the storage and distribution of the USDA commodities (but not the hundreds of millions of dollars in commodities, which USDA will continue to donate). We believe those in need of emergency food and shelter will not be affected by the changes because alternative sources of assistance are available. These sources include State and local governments, which are in much better financial condition than

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the Federal Government. They also include the private sector, which plays a major role in food and shelter operations. Most shelters, for example, receive the major share of their funding from private sources. Last year, there was a record $74 billion in voluntary giving, and as the economy continues to thrive, we expect this giving to grow.

The Federal Government also is an important source of support. Through programs such as USDA's commodity program, the Administration on Aging's food program, the Community Development Block Grant, the Social Services Block Grant, the Primary Care and other health block grants, and Volunteers in Service to America (VISTA), the Federal Government helps States and localities in their efforts to provide food and shelter to those in need.

In addition, the Federal Government is the main source of funding for programs providing support to individuals for basic needs, including food and shelter. These programs include Food Stamps, Social Security, Supplemental Security Income (SSI), Medicaid, and Veterans' Compensation and Pensions. The programs support all qualified individuals, including those who need food and the homeless.

The Interagency Task Force on the Homeless, comprised of 15 Federal agencies and headed by HHS, works with States and localities both directly and through regional task forces to inform them about these and other Federal resources available to communities in meeting emergency needs. It also provides assistance in the development of strategies for use of these resources. The Task Force, for example, has worked to ensure that communities know that the homeless may be eligible for entitlement programs, such as SSI, enabling many individuals to receive support on a continuing basis.

In addition, a number of interagency agreements have been negotiated to provide support for food and shelter operations:

- The General Services Administration (GSA) donates surplus property, equipment, and clothing to food banks and shelter projects. The property and equipment available include refrigerators, kitchen supplies, furniture, medical supplies, heaters, and similar items. The Department of Defense (DOD) also provides incidental support, such as cots and blankets, to shelters at no cost.

- DOD and the Coast Guard enter into agreements which link food banks with commissaries to obtain surplus food. Currently, 186 such agreements are in place. Donations are currently running at the rate of over two million pounds per year.

- DOD also makes available military warehouse space to food banks for storage of food.

- The National Guard has agreed to make its facilities and manpower services available, within the mission of their training operations, to support food and shelter operations. They transport food, clothing, and other surplus property. They also may provide manpower services and allow the use of armories for storage.

- GSA, DOD, HUD, and the Farmers' Home Administration make facilities and single family homes available for use as shelters.

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Through both on-going Federal programs and special initiatives, we believe the Federal Government is acting as a responsible partner in State, local, and private efforts to help those in need of food, shelter, and other support services. Given the array of resources available, we believe that those now served by the FEMA program will receive assistance from other sources and that the level of distribution of USDA commodities will be maintained.

RESCISSIONS IN LOW INCOME PROGRAMS

YOUR BUDGET CONTAINS $10 BILLION OR SO IN RESCISSIONS OF FY 1986 FUNDS. OVER $6 BILLION -- OR ABOUT 60% OF THE TOTAL -- APPEARS TO COME IN THE LOW INCOME AREAS. YOU PROPOSE RESCISSIONS IN OVER A DOZEN LOW INCOME PROGRAMS, INCLUDING SUBSIDIZED HOUSING, JOB CORPS, SUMMER YOUTH EMPLOYMENT, STUDENT FINANCIAL ASSISTANCE, COMMUNITY HEALTH CENTERS, REFUGEE ASSISTANCE, INDIAN HEALTH PROGRAMS AND OTHERS.

- WHY DO SUCH A DISPROPORTIONATE SHARE OF THE RESCISSIONS FALL IN THE LOW INCOME AREA?

Answer:

As you have indicated, the President's FY 1987 budget proposes rescissions in HUD and FmHA subsidized housing, Job Corps, Summer Youth, student financial assistance, the Primary Care Block grant, refugee assistance, and Indian Health programs. As a result of these rescissions, FY 1986 spending would be reduced by $78 million -- less than one percent -- from FY 1985 spending levels.

Almost 85 percent of the total rescission amount for these programs is for subsidized housing. The Administration is not reducing the number of people receiving assistance. We are proposing to slow the growth in the already sizeable subsidized housing inventory, and to implement reforms that would allow the government to serve more people at lower cost by making more effective use of housing available in the private sector. Under our proposals, housing construction programs would be replaced by housing vouchers, which can serve families at less cost and provide them with greater choice in housing. The rescissions for the constructions programs are large because these programs require large amounts of "up front" budget authority, which spends out over 15 to 40 years. Recipient figures are a much better measure of the effects of the Administration's proposals than rescission figures. Under our proposals, the number of families served in assisted housing programs would increase from 5.4 million in 1985 to 5.9 million in 1986. The rents that these tenants pay would be the same as under current programs.

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The remainder of the rescissions largely reflect implementation of policies which take advantage of efficiencies that can be achieved in delivery of services, targeting of assistance to those in need, and elimination of costly and ineffective aspects of certain programs. Details on the policy changes that underlie the rescission proposals are outlined in "Major Policy Initiatives," a volume published in conjunction with the 1987 budget.

Reductions in WIC

THE ADMINISTRATION'S BUDGET PROPOSAL CLAIMS THAT THE WIC PROGRAM (OR SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS AND CHILDREN) WOULD BE FUNDED AT LEVELS SUFFICIENT TO MAINTAIN "THE ANTICIPATED 1986 YEAR-END CASELOAD." (MAJOR POLICY INITIATIVES, P. 138) YET YOUR BUDGET DOCUMENTS ALSO SHOW THAT YOUR REQUEST FOR WIC WOULD FALL $15 MILLION BELOW CURRENT SERVICES LEVELS FOR FY 1987 AND $74 MILLION BELOW CURRENT SERVICES IN FY 1988. THIS MEANS THAT APPROXIMATELY 30,000 FEWER WOMEN, INFANTS AND CHILDREN WOULD BE SERVED IN FY 1987 AND THAT BY FISCAL YEAR 1988, SOME 140,000 FEWER PERSONS WOULD BE SERVED THAN ARE NOW BEING REACHED.

• PLEASE EXPLAIN THE RATIONALE BEHIND THIS PROPOSAL TO REDUCE THE WIC CASELOAD, CONSIDERING THAT THE PROGRAM ALREADY REACHES FEWER THAN HALF OF THOSE WHO MEET ITS ELIGIBILITY CRITERIA.

Answer:

The President's FY87 budget request does not anticipate an FY87 WIC caseload reduction.

The current services estimate for WIC is calculated by applying a general inflator -- the State and local purchases index -- to the FY86 appropriation. It is not derived by calculating the cost of funding a particular caseload.

The President's FY87 request, by contrast, is based on funding the projected FY86 year-end WIC caseload. It is impossible to predict precisely how many recipients will be served under either the FY86 appropriation or the FY87 request because of the flexibility States have in managing their WIC food grants. However, we expect approximately three million WIC participants in both years.

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I would also point out that the CBO FY87 current services estimate is $1612 million -- $5 million below the Administration's request.

Medicare Proposals and the Low Income Elderly

The Administration's budget would require that elderly Medicare beneficiaries pay significantly higher premiums for Part B Medicare coverage (which covers physicians' services). The premium would rise from 25% of Part B costs to 35% by 1991. When fully phased in by 1991, elderly Medicare beneficiaries would have to pay $191 more a year for coverage than under current law.

It has been said that this wouldn't affect the elderly poor because Medicaid pays their Medicare premiums, but I don't think this is quite right. It is my understanding that about two-thirds of the elderly living below the poverty line -- some 2 million elderly poor persons -- would have to absorb the increase from their own very limited financial resources. This is because only about 40% of the elderly poor are in the Medicaid program -- and for a significant number of those who are in Medicaid, their state does not pay the Medicare premium for them.

- Are there not other ways of requiring more financially secure Medicare recipients to contribute towards the cost of their health care without reaching into the pockets of the elderly poor?

Answer:

Almost all Medicare beneficiaries who are also on Medicaid would be shielded from the higher premiums proposed for Medicare Part B coverage. All of the States but one are currently buying-in to Medicare for their elderly Medicaid recipients. That one State is Wyoming, which has only a very modest number of elderly on Medicaid.

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Of the almost 2 million Medicare beneficiaries estimated to have low income but are not on Medicaid, a substantial number are not eligible for Medicaid because they have significant assets.

Federal matching payments are available for States which choose to expand Medicaid eligibility to other income groups.

FOOD STAMPS

YOUR BUDGET DOCUMENTS INCLUDE OVER $300 MILLION IN FOOD STAMP CUTS AND STATE THAT YOU WILL ACHIEVE SAVINGS THROUGH REFORMS OF "FOOD STAMPS ADMINISTRATION." YET USDA'S OFFICIAL BUDGET BOOK SHOWS LESS THAN $100 MILLION IN ADMINISTRATIVE SAVINGS NEXT YEAR -- AND SHOWS THAT 76% OF THE PROPOSED SAVINGS WOULD COME THROUGH BENEFIT CHANGES.

• WHY DO YOUR DOCUMENTS FAIL EVEN TO MENTION THE FOOD STAMP BENEFIT CHANGES WHICH YOU CLEARLY ARE PROPOSING?

The President's FY87 Budget proposes repeal of unnecessary program expansions enacted by the Food Security Act of 1985 and set to go into effect on May 1, 1986:

Assest Limit: retain asset limit of $1500 for most households ($3,000 for households of two or more where at least one is 60 or older). The Farm Bill would increase the limit to $2,000 for most households and to $3,000 for all elderly households.

- o Current beneficiaries would be unaffected by this proposal.
- o Food Stamps will serve 19,750,000 people in FY86. Repeal of this expansion would prevent addition of 30,000 new beneficiaries in FY86 and 100,000 new beneficiaries in FY87.
- o This expansion would cost an estimated $219 million between FY86 and FY88.

Earned Income Deduction: retain earned income deduction of 18% of total earnings, enacted as a program reform by the 1981 Omnibus Budget Reconciliation Act.

- o An increase in the earned income deduction is unnecessary -- average work expenses among beneficiaries with earnings are about 16%.
- o This expansion would cost the Federal government $137 million between FY86 and FY88, yet would add only $3 in benefits per month to household allotments.
- o Repeal would have a minimal (if any) effect on work incentives -- the expansion would add less than 1 cent in additional benefits for each additional dollar in earnings.

Combined Excess Shelter and Dependent Care Deductions: retain combined deduction with pre-Farm Bill caps.

- o The current cap is sufficient for the average beneficiary. The average excess shelter deduction is currently about $100 -- $39 below the present cap.
- o Raising the excess shelter deduction merely provides households with the highest shelter costs an undue subsidy of their housing costs though Federal funds appropriated for nutrition assistance.

OIL IMPORT FEE

- ON A "NET BASIS" -- THAT IS ACCOUNTING FOR INCREASED PRICES TO PETROLEUM USERS BUT LOWER INTEREST RATES DUE TO A REDUCED DEFICIT -- WOULD THE U.S. "COME OUT AHEAD" WITH AN OIL IMPORT FEE?

- WHAT ARE THE LIKELY REVENUE IMPACTS OF ALL THE OIL IMPORT FEE OPTIONS CURRENTLY BEING CONSIDERED BY THE ADMINISTRATION?

Answer:

An oil import fee would increase the price of petroleum for U.S. consumers compared to what it would otherwise be. Increases in oil prices, as we have learned, can have profound effects on the U.S. economy, but these effects are difficult to quantify precisely. There would be at least a one-time rise in the price level, compared to what it otherwise would be, which would affect COLAs for retirement programs, other Government costs, and income tax indexing. On the other hand, Federal receipts from both offshore and on-shore oil leases, and the windfall profit tax would increase. There would be some depressing effect on the level of real GNP, and slightly higher unemployment than would otherwise prevail, which would increase unemployment insurance outlays. The lower real GNP level and the higher price level should come close to offsetting each other, so that the level of nominal GNP, and thus Federal income and payroll tax receipts, might be little affected. If interest rates were to fall, there would be savings in interest costs, but these would only be realized gradually, as existing debt matured and was refinanced at lower rates.

Clearly, the net indirect budgetary impact of an oil import fee is highly speculative. In combination with the receipts raised directly by the import fee itself, however, the net effects would almost certainly be in the direction of reducing the deficit.

The administration has taken the position, however, that it will support any such import fee only on the condition that it be part of a tax reform package that is revenue neutral in the aggregate. The Administration believes strongly that the deficit can and should be eliminated through reductions in spending, not by a tax increase in any form.

The President has stated that the House-passed tax reform bill fails in

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several respects to meet his minimum requirements for an acceptable bill. Many of the improvements suggested by the President, as well as many others that have been mentioned by members of the Finance Committee, would entail a significant loss of revenues. Thus, the revenue raised by a tax on imported petroleum could be used to maintain the revenue neutrality of a bill that included the suggested changes. It is only in the context of a tax reform bill, if at all, that the Administration would be willing to consider supporting the following two bills, each of which would impose an excise tax or tariff on crude oil and refined petroleum products that are imported into the United States:

- S.1507, sponsored by Senators Boren and Bentsen, would increase the existing tariff on imported crude oil by $5 per barrel, and would increase the existing tariffs on refined petroleum products by $10 per barrel.

- S.1997, sponsored by Senators Wallop and Bentsen, would impose a new excise tax on the sale or use within the United States of any crude oil or refined petroleum products that have been imported. The amount of the excise tax on each barrel of imported crude oil would be equal to the difference between the average world price per barrel of crude oil and a statutorily prescribed floor, set initially at $22 per barrel. The amount of the floor would be increased annually to account for growth in per capita nominal gross national product. The amount of the tax imposed on each barrel of refined petroleum products would be a portion of the per barrel excise tax on imported crude oil, increased by a $3 per barrel "environmental outlay adjustment."

Assuming an October 1, 1986 effective date, current levels of imports, and oil prices that remain $4 per barrel below the Administration's current assumptions, the Office of Tax Analysis at Treasury estimates that S.1507 would increase receipts by a maximum of $35.7 billion over the fiscal 1987-1991 budget period. Under the same assumptions, S.1997 is estimated to increase receipts by $26.0 billion over the 5-year period, 1987-1991. These estimates reflect Treasury's interpretation of the various exemptions contained in each bill.

Minimum Corporate Tax

WHAT DO YOU ESTIMATE WOULD BE THE GROSS INCREASE IN TREASURY RECEIPTS IF A MINIMUM CORPORATE TAX WERE TO BE IMPOSED, OF SAY 10%?

Answer:

The office of Tax Analysis at Treasury has indicated that they cannot estimate the effect of a 10% minimum corporate tax without more information. Specifically, to make an estimate it would be necessary to know whether an "add-on" minimum tax or an alternative minimum tax (similar in structure to the current alternative minimum tax for noncorporate taxpayers) is being proposed. In addition, it would be necessary to know what items of tax preference would be subject to the tax, whether the full dollar value of these preference items would be subject to the tax or only the dollar amount in excess of a specified threshold, whether adjustments for various tax credits would be allowed, and if an exemption against taxable income would be provided. Finally, they would need to know the basic tax structure against which the effects of the proposal would be measured.

Replacement of the current minimum tax for corporations with an alternative minimum tax of 20 percent was included in the President's tax reform proposal. It was estimated that this proposal would increase receipts by $0.7 billion in each year, in 1987-89, and $0.8 billion in 1990. An explanation of the current law "add-on" minimum tax and the President's proposal is attached.

REVISE CORPORATE MINIMUM TAX

General Explanation

Chapter 13.04

Current Law

Taxpayers whose taxable incomes are substantially reduced by specified "items of tax preference" are subject to "minimum taxes" which may increase their overall tax liabilities. For corporations, a minimum tax is imposed in the form of an "add-on" minimum tax.

In general, the corporate minimum tax is equal to 15 percent of the amount by which the taxpayer's items of tax preference exceed the greater of (a) $10,000 or (b) the regular corporate income tax for the taxable year (without regard to the accumulated earnings tax or personal holding company tax, if any, and reduced by most allowable tax credits).

Items of tax preference generally include:

(a) The excess of accelerated over straight-line depreciation for each item of real property (other than recovery property) and, for personal holding companies, each item of leased personal property (other than recovery property).

(b) In the case of each item of recovery property that is 18-year real property or low-income housing (and, for personal holding companies, each item of leased recovery property other than 18-year real property or low-income housing), the excess of ACRS deductions over depreciation deductions that would have been allowed had the property been depreciated under the straight-line method over prescribed recovery periods.

(c) The amount of income effectively untaxed due to the preferential rate of tax applied to capital gains.

(d) The excess of the allowable amortization deduction for each pollution control facility over the depreciation deduction that would otherwise be allowable in the absence of special amortization.

(e) In the case of mining exploration and development costs with respect to a mine or other natural deposit of a personal holding company, the excess of the amount allowable as a deduction over the amount that would have been allowable had such costs been amortized over a ten-year period.

(f) In the case of intangible drilling and development costs of oil, gas, and geothermal properties of personal holding companies, the amount by which (i) the excess of the amount allowable as a deduction over the amount that would have been allowable had such costs been amortized over a ten-year period, exceeds (ii) the taxpayer's net income from oil, gas, and geothermal properties.

(g) In the case of circulation expenditures of personal holding companies, the excess of the amount allowable as a deduction over the amount that would have been allowable had such expenditures been amortized over a three-year period.

(h) In the case of research and experimental expenditures of personal holding companies, the excess of the amount allowable as a deduction over the amount that would have been allowable had such expenditures been amortized over a ten-year period.

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(i) The excess of a financial institution's allowable deduction for bad debt reserves over the deduction that would have been allowable had the institution maintained its reserves on the basis of actual experience.

(j) With respect to each depletable property, the excess of the deduction for depletion for the taxable year over the adjusted basis of the property.

Reasons For Change

Since the Administration's tax reform proposals contain incentive provisions that depart from the measurement of economic income, some high-income corporations would be able to eliminate their tax liabilities or substantially reduce their effective tax rates by heavy utilization of such provisions. As under current law, the prospect of high-income corporations paying little or no tax threatens public confidence in the tax system. Consequently, a minimum tax designed to limit the number of high-income, low-tax returns should be retained.

The add-on corporate minimum tax under current law is poorly designed for this purpose. The add-on tax may be imposed on preferences used by a corporate taxpayer even though the taxpayer is taxed at an effective rate higher than the minimum tax rate. An "alternative" minimum tax, imposed only to the extent a taxpayer's regular effective tax rate falls below a minimum acceptable level, is better designed to achieve the purposes of a minimum tax.

However, an alternative minimum tax limited to the tax preferences applicable to corporations under current law would be insufficient to prevent many corporations from eliminating their regular tax on economic income. Additional preferences should thus be taken into account. Although the Administration proposals generally would allow accelerated depreciation as an incentive for capital formation, a debt-financed acquisition of depreciable assets may reduce the effective tax rate on such investment substantially below the effective tax rate on similar investments that are equity financed. The full deductibility of interest, without adjustment for the extent to which interest payments are compensation for the effects of inflation rather than a cost of borrowing money, results in significant mismeasurement of income. This mismeasurement is more serious where the investment itself receives preferential treatment. Since the low effective tax rates for debt-financed investment in depreciable property are unnecessary to encourage capital formation, the minimum tax should apply to corporations that substantially reduce their regular tax liabilities through such debt-financed investments.

In addition, corporations engaged in oil and gas activities may eliminate or substantially reduce tax liabilities through excessive use of the election to expense intangible drilling costs ("IDCs"). Although the election to expense IDCs is provided as an incentive for domestic energy production, the value of the incentive is appropriately an item of tax preference for purposes of the corporate minimum tax.

Proposal

Under the proposal, the minimum tax for corporations would be repealed and replaced with an alternative minimum tax, similar in structure to the alternative minimum tax for noncorporate taxpayers. The alternative minimum tax rate would be 20 percent. Alternative minimum taxable income would generally be computed by adding to taxable income (or loss) the excess of preference items over $10,000, subtracting a threshold exemption amount of $15,000, and making adjustments for net operating loss carryovers attributable to preference items. The foreign tax credit generally would be allowed to offset minimum tax liability.

Items of tax preference subject to the alternative minimum tax would include the following:

(a) The tax preferences, as defined under current law, with respect to each item of real property placed in service before 1981 and each item of recovery property which is 15-year real property, 18-year real property, or low-income housing.

(b) For each item of real property placed in service on or after January 1, 1986, the amount (if any) by which the deduction allowed under CCRS for the taxable year exceeds the deduction which would have been allowable for the taxable year had the property been depreciated along the lines of the real economic depreciation system proposed in the Treasury Department's Report to the President, Tax Reform for Fairness, Simplicity, and Economic Growth, published in November 1984.

(c) In the case of personal holding companies, the tax preference, as defined under current law, with respect to each item of leased personal property placed in service before 1981 and each item of leased recovery property which is not 15-year real property, 18-year real property, or low-income housing.

(d) In the case of personal holding companies, for each item of leased personal property placed in service on or after January 1, 1986, the amount (if any) by which the deduction allowed under CCRS for the taxable year exceeds the deduction which would have been allowable for the taxable year had the property been depreciated along the lines of the real economic depreciation system proposed in the Treasury Department's Report to the President, Tax Reform for Fairness, Simplicity, and Economic Growth, published in November 1984.

(e) The excess of the allowable amortization deduction for each pollution control facility over the depreciation deduction for that facility that would otherwise be allowable in the absence of special amortization.

(f) The amount of income effectively untaxed due to the preferential rate of tax applied to capital gains.

(g) In the case of mining exploration and development costs with respect to a mine or other natural deposit, the excess of the amount allowable as a deduction over the amount that would have been allowable had such costs been amortized over a ten-year period.

(h) In the case of intangible drilling and development costs of oil, gas, and geothermal properties (other than dry holes), eight percent of the amount of such costs paid or incurred in the taxable year.

(i) With respect to each depletable property placed in service before January 1, 1986, the excess of the deduction for depletion for the taxable year over the adjusted basis of the property.

(j) With respect to each depletable property placed in service on or after January 1, 1986, the excess of the deduction allowable for the taxable year for percentage depletion over the amount that would have been allowable for the taxable year had capitalized costs been recovered through cost depletion.

(k) With respect to each item of contributed property for which a charitable contribution deduction is allowed, the excess of the deduction allowed over the donor's basis in the property.

(l) Twenty-five percent of the deduction for interest expense for the taxable year (reduced by taxable interest income for such year), but not in excess of the amount (if any) by which the deduction allowed under CCRS for the taxable year for each item of personal property placed in service on or after January 1, 1986 (but, in the case of personal holding companies, only if such property is not subject to a lease), exceeds the deduction which would have been allowable for the taxable year had the property been depreciated along the lines of the real economic depreciation system proposed in the Treasury Department's Report to the President, Tax Reform for Fairness, Simplicity, and Economic Growth, published in November 1984.

(m) In the case of personal holding companies, the excess of the deduction for the taxable year for research and experimental expenditures over the amount that would have been allowed had such expenditures been amortized over a ten-year period.

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The deduction for circulation expenditures would not be treated as an item of tax preference under the proposal.

Effective Date

The proposed alternative minimum tax would be effective for taxable years beginning on or after January 1, 1986.

Analysis

The proposal would minimize the number of high-income corporations paying little or no tax as a result of heavy utilization of the tax preferences included in the alternative minimum tax base, and would thus improve the fairness of the tax system. Due to the exclusion of a corporation's first $10,000 of preferences from alternative minimum taxable income, corporations using only small amounts of tax preferences would not need to compute the minimum tax. The $15,000 threshold amount would ensure that no corporation would be subject to a minimum tax liability greater than the regular tax liability computed by adding preferences to the regular tax base.

The inclusion of 25 percent of net interest expense as an item of tax preference (to the extent of the excess of CCRS deductions for personal property over economic depreciation) effectively treats the taxpayer's first investments in CCRS property as being financed by indebtedness of the taxpayer. The 25 percent fraction is intended to identify, on the basis of very conservative assumptions, the portion of such interest representing an inflation premium rather than a cost of borrowing money. For analysis of the treatment of IDCs as an item of tax preference, see Ch. 9.03.

DEFENSE VS. FOREIGN AID

• WHICH IS A HIGHER PRIORITY WITHIN OMB, THE $34.2 BILLION 12% INCREASE IN DEFENSE SPENDING; THE $1.2 BILLION 12.5% INCREASE IN FOREIGN AID; OR THE $4.4 BILLION EMBASSY SECURITY PROGRAM? IT SEEMS TO ME THAT CONGRESS IS GOING TO HAVE TO MAKE SOME DECISIONS ABOUT THE INCREASES REQUESTED IN THE PRESIDENT'S BUDGET BUT EACH AGENCY IS GOING TO SAY ITS PROGRAMS ARE THE HIGHEST PRIORITY. CAN YOU GIVE US SOME GUIDANCE?

Answer: The increases requested by the President for the Defense and International Affairs budgets are of the highest priority.

The administration is proposing a 1987 defense

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budget which provides the real program level agreed to in last year's budget resolution. Given the stark realities of the FY 1986 outcome -- a 5.8% real decline in budget authority -- it is essential that a modest growth in defense resume in order to obtain minimum national security goals.

The 1987 budget request contains $16.2 billion for foreign aid. This $16.2 billion represents the essential costs of carrying out our national security and foreign policy objectives abroad. As the President said last year, "dollar-for--dollar, our security assistance contributes as much to global security as our defense budget." This is illustrated by the priority objectives served by our foreign aid budget request:

° Almost 34 percent of the foreign aid total goes to Israel and Egypt in support of our search for peace in the Middle East.

° Another 26 percent goes to countries in which we have bases or military access agreements,

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or who face hostile communist forces across their borders.

° Seventeen percent supports our commitments to international financial institutions.

° The balance goes to countries in Latin America and to various critical development programs in the third world.

Also, our 1987 request contains necessary amounts for a new program to protect our embassies and U.S. officials abroad and to protect foreign officials in the United States. This program was recommended by a special (Inman) commission on countermeasures in this era of unprecedented terrorism. This $4.4 billion multiyear proposal ($1.7 billion in 1987) is a necessary investment in the conduct of business abroad and in the protection of American lives.

GRAMM-RUDMAN-HOLLINGS - FY86 OBLIGATED BALANCES

• ACCORDING TO YOUR UNDEPSTANDING OF GRAMM-RUDMAN-HOLLINGS,

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ARE FY86 OBLIGATED BALANCES EXEMPT FROM SEQUESTRATION OR MUST FUNDS OBLIGATED PRIOR TO THE ACT BE RETURNED BY THE RECIPIENTS?

Answer: Section 256(1) of Gramm-Rudman-Hollings says obligated balances shall not be reduced under a sequester order, except as specified for defense contracts. Obligated balances represent the claim on funds in an account for orders placed, contracts awarded, services received, and similar transactions that will require payments, but for which no payment has been made. Therefore, even if obligated balances were sequestered, recipients would not have to return funds.

However, since Gramm-Rudman-Hollings took effect well into the 1986 fiscal year and a significant portion of the budgetary resources in some accounts had already been obligated or outlayed, a disproportionate share of the sequestered amount would fall on recipients who had not yet received payments otherwise due them. In such cases, we will use whatever existing authority we have under applicable statutes to deobligate or negotiate the return of funds, so that the funds can be distributed equitably.

QUESTIONS SUBMITTED BY SENATOR LAUTENBERG

(CLERK' NOTE: Due to the voluminous content of the attached material referred to as "Tabs" in questions one through three, the committee has elected not to print the material in the record. It will, however, be retained in the committee files.)

OMB REGULATORY REVIEW

INTRODUCTORY REMARKS

I AM CONCERNED ABOUT THE IMPLEMENTATION BY OMB OF THE PRESIDENT'S EXECUTIVE ORDER 12291, (ISSUED IN FEBRUARY 1981), WHICH GIVES OMB AUTHORITY TO REVIEW PROPOSED AND FINAL REGULATIONS BEFORE THEY CAN BE ISSUED BY EXECUTIVE RULEMAKING AGENCIES. IN PARTICULAR, I SEE A CONTRADICTION BETWEEN YOUR OFFICIAL LEGAL POSTURE THAT OMB'S ROLE IS MERELY ADVISORY, AND THE ACTIONS BY OMB OVER THE PAST FIVE YEARS. THESE OMB ACTIONS INCLUDE:

A. THE LENGHTY BLOCKING, UNTIL LAST MONTH, OF EPA'S PROPOSED ASBESTOS RULES.

B. THE LAST MINUTE GUTTING OF OSHA'S RULES TO PROTECT HOSPITAL WORKERS FROM EXPOSURE TO ETHYLENE OXIDE.

C. THE BLOCKING OF EPA'S DRINKING WATER STANDARDS UNTIL THE SENATE, LAST FALL, WENT TO THE EXTREME STEP OF PASSING LEGISLATION REQUIRING THEIR ISSUANCE.

D. THE BLOCKING OF EPA STANDARDS FOR LEAKING UNDERGROUND STORAGE TANKS.

E. THE BLOCKING AND ONGOING ATTEMPTS TO GUT OSHA'S GRAIN DUST STANDARDS TO PROTECT GRAINERY WORKERS FROM THE TRAGIC EXPLOSIONS WHICH CONTINUE TO OCCUR.

AND TOO MANY OTHER EXAMPLES OF OMB INTERFERENCE IN THE BUSINESS OF THE REGULATORY AGENCIES, PARTICULARLY THOSE WITH IMPORTANT HEALTH AND SAFETY EXPERTISE AND RESPONSIBILITIES.

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QUESTION

1. A. IT'S YOUR POSITION THAT OMB'S AUTHORITY UNDER THE EXECUTIVE ORDER IS, IN YOUR OWN WORDS, "ADVISORY AND CONSULTATIVE", IS IT NOT?

Answer: OMB's authority under Executive Order No. 12291 is "advisory and consultative." It is advisory and consultative because the Executive Order itself makes it clear that rulemaking authority invested by law in the heads of departments and agencies is not displaced by Executive Order No. 12291. For all rulemaking actions subject to Executive Order No. 12291, whatever authority is invested by law in the agency heads remains with the head of that department or agency.

On the other hand, in signing Executive Order No. 12291, the President quite clearly intended that the views of the Director of the Office of Management and Budget on rules submitted for his review would be seriously considered by the head of the department or agencies before the head of that agency took action proposed in draft rules. Furthermore, the President instructed his appointees--the heads of these departments and agencies--to refrain from proceeding with rulemaking action until that review process had been completed, unless a statutory or judicial deadline prevents the Executive Order No. 12291 procedures from being completed. Most of the time taken in the review of agencies' rules is for discussions between OMB and the agency on whether the proposed rulemaking action is, in fact, consistent with the President's regulatory principles. But, in all instances, the head of the rulemaking agency retains the statutory authority invested in him or her by law.

Attached to this answer at Tab A is a copy of the February 13, 1981, Opinion of the Office of Legal Counsel, in the Department of Justice, concerning the authority of the rulemaking agency and the Director of the Office of Management and Budget under Executive Order No. 12291. Also attached are copies of the government's briefs in EDF v. Thomas (Tab B), and Public Citizen v. Roland (Tab C), which also discuss the respective authorities of the agencies and OMB.

In the introductory remarks to this series of questions, you state that there is a contradiction between OMB's official legal posture--that OMB's authority is "advisory and consultative"--and the actions taken in five rulemaking actions that you imply are typical of those taken over the past five years. We do not believe there is any contradiction in these five rulemakings or any other of the more than 12,100 rules that have been reviewed under Executive Order No. 12291. In all of these rulemakings the authority invested by law in the head of the agency remained with the head of that agency.

You stated that these are examples of only a few of the rules that OMB has blocked. As we demonstrate below, we have not blocked the issuance of any rules. If there are any other alleged examples of alleged OMB interference in the business of a regulatory agency, particularly of the important health or safety agencies--we would be happy to address them and to explain whatever our role was, or view is, with regard to them.

A. OMB did not "block" EPA's asbestos regulations until the proposed rules were issued in January 1986. Development of this complicated rule has taken many years. We provide a brief chronology of our review below.

On October 17, 1979 EPA issued an Advanced Notice of Proposed Rulemaking to obtain information on the risks and benefits of asbestos use. Then in July and September 1982, EPA issued final rules under Section 8 of TSCA to obtain information on production, use, and health effects.

OMB was first briefed on EPA's intentions in early March 1984. At that time, we questioned whether a ban was appropriate

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considering that OSHA was expected to lower the permissible exposure limit for asbestos to 0.5 or 0.2 f/cc.

On May 14, 1984 EPA submitted a draft proposed rule to OMB banning 4 uses of asbestos. EPA also submitted a Regulatory Impact Analysis (RIA) as required by E.O. 12291. EPA's analysis raised several issues.

- o It appeared that EPA did not adequately consider the adequacy of other federal authorities to deal with the risk presented by asbestos. EPA estimated that 99% of the estimated cancer cases were occupational.

- o It was unclear whether EPA had adequately considered the risks associated with substitute materials. For example, less effective substitute brake materials could lead to increased auto deaths. Also, the component of the primary substitute for asbestos/cement pipe, vinyl chloride, is a known human carcinogen.

- o It was unclear whether EPA had adequately considered the availability of substitutes. Even without federal controls, the asbestos industry already had a strong incentive to develop substitute products. The remaining products were presumably those without effective, reasonably priced substitutes.

- o It was unclear whether EPA had adequately considered the potential difference in toxicity between different types of asbestos.

- o It was unclear whether EPA had properly calculated the cost-effectiveness of its rule since it did not place costs and benefits in the same time frame.

- o The benefits and the costs of the four product ban rule were inextricably tied to an additional rule being prepared by the Agency which would propose banning all remaining products over a ten year period. As a result, is was necessary to analyze the ban rule in conjunction with the the ten year ban rule.

During the summer of 1984, as a result of further internal review and discussions with OMB, EPA continued to revise its RIA and update its cost and benefit estimates.

Finally, August 15, 1984 EPA submitted the draft proposed rule banning all remaining uses of asbestos over a 10 year period. At that time we were able to review the combined effect of the two rules.

In October, 1984 EPA submitted a revised regulatory impact analysis to OMB and a use-by-use analysis of banning individual asbetos products. This analysis raised several additional issues.

- o EPA's estimates indicated that use of several products posed no risk at all.

- o EPA's estimates indicated that use of several products posed no risk at all.

- o EPA's estimates indicated that, when viewed on a use by use basis many products were not cost-effective to ban. In fact, it appeared that the majority of risk would be eliminated by OSHA action and an immediate EPA ban of several risky products with adequate substitutes.

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- EPA's analysis showed that 87% of the risk affected workers, 13% affected consumers due to asbestos floor tile, and 0.003% affected the general population due to ambient air exposure.

- We were concerned that EPA's proposed ten year ban, to be achieved through marketable permits, was administratively impracticable and could result in an inappropriate windfall of several billion dollars to asbestos importers.

As a result of its re-analysis, at least partially stimulated by OMB's questions, EPA decided to withdraw the asbestos ban rules on January 31, 1985.

We sent a letter to EPA on April 17, 1985 in order to identify our concerns with the EPA draft rules. In particular, we questioned whether EPA should refer regulation to OSHA and the CPSC under Section 9 of TSCA, whether EPA had adequately considered the safety and availability of substitutes, and whether, except for certain products, the costs of banning asbestos outweighed the benefits.

After a significant amount of further analysis and thought, on December 16, 1985 EPA submitted a draft proposed rule that proposed to ban asbestos over a ten year period. In addition to the original proposals, EPA proposed two additional options that would address asbestos on a use basis (i.e., construction products, friction products, and all others). These options would propose to immediately ban the products with reasonably priced substitutes and then to ban, in five years, products that presently do not have reasonably priced substitutes. These options also eliminated the administrative complexity of the marketable permit scheme.

About one month later, on January 21, 1986, fully within the time allowed by the Executive Order for major proposed rules, OMB cleared the EPA proposal as consistent with the Executive Order. As a result of discussions during the review, EPA agreed to include an option that would require labelling of products that are not banned immediately. The purpose of labelling would be to reduce risks immediately for those products, in all three options, that are not banned immediately.

B. Several questions regarding the decision of the Secretary of Labor to delete a short term exposure limit (STEL) from OSHA's final rule on Ethylene Oxide are presently before the United States Court of Appeals. It is clear, and the brief of the Department of Labor (Tab C) confirms, that the Secretary of Labor made the decision that the rulemaking record did not adequately support a STEL that went beyond the protection afforded by a permissible exposure limit (PEL) for ethylene oxide.

The Secretary made this decision after receiving written comments from the Office of Management and Budget setting forth its reasons why, among other things, it did not believe a STEL was warranted by the record. Although the Secretary decided not to adopt a STEL for ethylene oxide, he disagreed with OMB on other matters and the final rule reflects these decisions of the Secretary. Subsequent to those decisions, a rulemaking was initiated specifically on the issue of a STEL for ethylene oxide, and six months later the Secretary of Labor again determined that the rulemaking record did not support the adoption of a STEL. This case clearly demonstrates the Secretary's exercise of independent decision-making and authority, and that OMB in no way "gutted" the OSHA ethylene oxide rule.

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C. The facts of OMB's review of drinking water regulations do not demonstrate that OMB blocked EPA's actions. To the contrary, EPA's regulatory actions have been largely unaffected by OMB's serious objections that are on the record. On February 9, 1984, the Environmental Protection Agency (EPA) submitted to the Office of Management and Budget (OMB) for review under Executive Order No. 12291 a draft proposed regulation which would establish Recommended Maximum Contaminant Levels (RMCLs) for nine volatile organic compounds. The development of this draft rule was preceded by an Advance Notice of Proposed Rulemaking (ANPRM), published on March 4, 1982 (47 FR 9350).

On May 9, 1984, OMB sent EPA a lengthy letter (Tab D) returning the draft rule for further consideration, because OMB believed that the draft rule was inconsistent with the principles of the Executive Order as stated in Section 2.

As detailed in the letter, OMB was especially concerned about the criteria EPA was using to select which contaminants it would regulate. For example:

- EPA's data indicated that tetrachloroethylene was found in 7.3% of the systems canvassed in the Ground Water Supply Survey, while vinyl chloride appeared in only 0.2% of the systems.

- Our calculations, using EPA data, showed that if all of the substances EPA proposed to regulate were completely removed from all water supply systems, annual cancer incidence would be reduced by roughly two-thirds of a cancer case per year.

- Our letter went on to note that:

  "The same data suggest that 79% of water supply systems are currently free of these substances (at least at the limits of detectability), and that only 4% of systems have levels greater than 5 ug/l -- the lowest level achievable using treatment techniques identified by EPA." (emphasis added)

- We also noted that EPA was proposing to regulate two contaminants that the agency's Science Advisory Board had been unable to conclude were, in fact, carcinogens.

In conclusion, we questioned whether the public health concern here was sufficient to warrant national regulation affecting tens of thousands of water systems.

On May 10, 1984, EPA sent a letter back to OMB responding, in part, to our concerns, and resubmitting the rule for review under Executive Order No. 12291. Review was concluded as consistent with the Executive Order on May 20, and OMB sent a follow-up letter to EPA on May 30, 1984 (Tab E). We reiterated the seriousness of our concerns, and urged that EPA examine these issues carefully before moving to the next stage of rulemaking. EPA published the rule on June 12, 1984.

During the comment period, EPA received criticisms similar to the issues OMB raised as a result of its review. For example:

- The law firm of Baker and Daniels, on behalf of the Indianapolis Water Company, expressed concern about EPA's scientific basis for concluding that the VOCs were carcinogenic. They also worried about the viability of the treatment technologies likely to be required, such as granular activated carbon, and questioned whether the benefits of such national regulation were worth the costs.

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- The American Petroleum Institute questioned the appropriateness of a "zero" RMCL.

- In comments submitted by the Association of Metropolitan Water Agencies, Bruce Ames, Chairman of the Department of Biochemistry at the University of California at Berkeley, asserted that exposure to man-made chemicals in water is "irrelevant to the cause of human cancer." According to his letter, drinking water from the most polluted wells found in California, which contain 2,800 ppb of trichloroethylene, "is at least 1,000 times less hazardous than an equal volume of cola, beer, or wine."

EPA submitted its draft NPRM for Phase II contaminants (synthetic organic chemicals, inorganic chemicals and micro-organisms) for OMB review on April 16, 1985. Later, the draft final Phase I RMCL and draft proposed Maximum Contaminant Level (MCL) rulemaking packages were submitted, on July 3, 1985. In the draft final Phase I RMCL rule, EPA continued to establish RMCLs for all of the nine VOCs that it had proposed. During the comment period EPA increased the risk estimated by 4000%. At the final stage, the agency estimated that regulation of VOCs would reduce cancer incidence by 39 cancers per year, very significantly greater than the two-thirds case per year estimated in the proposal. The changes were primarily in EPA's calculations on the effect of the control of vinyl chloride, accounting for 37 of these cases.

On August 1 and again on September 6, Senators Baucus, Durenberger, Bentsen and Stafford urged OMB to complete its review of these draft regulatory actions. On September 19, 1985, the Senate passed an amendment to its Superfund legislation requiring that OMB complete its review of the Phase I and Phase II regulations not later than October 9, 1985. This amendment never became law.

As we explained in our letter dated October 22 (TAB F) to these Senators, OMB had reluctantly concluded on September 10, 1985, that, despite our continuing serious reservations, the review of these two draft Phase I actions should be completed. All our arguments had been made. We also noted that on September 26, 1985, review of the draft Phase II RMCL submission was concluded despite similar reservations. EPA published the Phase I final RMCL and proposed MCL rules on November 13, 1985, and the Phase II proposed RMCL on the same date.

In commenting on EPA's draft proposed fluoride RMCL rule under the Safe Drinking water Act, we characterized our position as follows:

> "[T]he effect of the proposal will simply be to impose regulatory burdens on 100% of the systems without any effects on flouride levels whatsoever--in 99.6% of the systems because they are already below 4 mg/l, and in 0.4% because they would not come into compliance. All of this would be undertaken, moreover, in order to avoid no documented adverse health effects from concentrations of fluoride found in this Nation's 60,000 drinking water systems."

This April 26, 1985, letter is attached at Tab G. See also our answer to Supplemental Question Number 1. C.

D. We assume the assertion refers to EPA's actions to comply with the statutory deadline in Section 3004(w) of the Resource Conservation and Recovery Act to publish final permitting standards for underground hazardous waste tanks that cannot be entered for inspection. The Environmental Defense Fund

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sued the Environmental Protection Agency on May 30, 1985 for missing the deadline and alleged that OMB's review under Executive Order No. 12291 caused the deadline to be missed.

The facts are that EPA sent a proposed rule to OMB for review after the March 1, 1985 deadline for a final rule had been missed. It should be quite clear that we did not cause the missed deadline.

OMB's review and its comments on the draft tank rule were advisory and consultative. The fact that changes occurred in the draft proposed rule after it was submitted to OMB for review, some of which were made after the advice of and consultation with OMB, does not mean that the agency authority was displaced either as a matter of law or as a matter of fact. All of the changes to the draft were made by EPA. No changes were made by OMB. Moreover, EPA did not accept all of the changes OMB sought. OMB has no authority under E.O. 12291 to force an agency to conform to its views. The President has directed agencies only to respond to OMB's views, not to conform to them. An agency head at all times retains the legal authority and responsibility assigned to him or her by statute.

In an earlier case, the U.S. Court of Appeals for the District of Columbia Circuit confirmed the necessity and lawfulness for communication between heads of Executive agencies and the President, and, by implication, his delegate:

> The authority of the President to control and supervise executive policymaking is derived from the Constitution; the desirability of such control is demonstrable from the practical realities of administrative rulemaking. Regulations such as those involved here demand a careful weighing of cost, environmental, and energy considerations. They also have broad implications for national economic policy. Our form of government simply could not function effectively or rationally if the executive policymakers were isolated from each other and from the the Chief Executive. Single mission agencies do not always have the answers to complex regulatory problems. An overworked administrator exposed on a 24-hour basis to a dedicated but zealous staff needs to know the arguments and ideas of policymakers in other agencies as well as in the White House. Sierra Club v. Costle, 657 F.2d 298, 405 (D.C. Cir. 1982) (footnote omitted).

Attached are the Government's briefs in the case (Tab B). The D.C. Circuit Court ruled on January 23, 1986. We have asked the court for a clarification of the ruling (Tab H). A decision on appeal has not as yet been made.

E. OSHA's proposed grain-handling rule was an extremely complex and detailed standard which attempted to address the multiple causes of fires and explosions, as well as other hazards such as suffocation and falls, in grain-handling facilities. The rule proposed to cover 16,000 facilities ranging from enormous export elevators with storage capacities of tens of millions of tons and hundreds of employees to small country elevators with storage capacities of tens of thousands of tons and two or three employees. The rule also covered feed mills, grain processing facilities, and oil seed processing facilities. In our review of OSHA's original regulatory impact analysis as well as the voluminous public record, many questions arose concerning the accuracy of OSHA's data and the reasonableness of the agency's assumptions. The problems that OMB found led OSHA to decide to hire a second contractor to prepare a new regulatory analysis. Our questions and OSHA's new analysis led to the development of a

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proposed rule which raised for public comment a broader range of compliance alternatives. Because many of our concerns remained unaddressed when the proposed rule was published, however, OMB submitted its comments on OSHA's proposed rule to the public record on April 11, 1984. A copy of the public filing is attached at Tab I.

In the past 18 months, OSHA has conducted public hearings on this standard, and has continued to carefully assess over 4,000 comments which have been submitted to the public record. The Department of Labor has indicated that this rulemaking will be completed in 1986. This rule has not been reviewed by OMB since December 21, 1983, the date OMB concluded review of the proposed rule on grain handling. To date, OSHA has not submitted the draft final rule for OMB review. Therefore, we do not see how it can be asserted that OMB is "blocking" OSHA's progress in issuing this rule.

B. AND, IS IT CORRECT THAT BECAUSE OF THAT VIEW, OMB TAKES THE POSITION THAT IT DOES NOT HAVE TO MAKE PUBLIC ANY OF ITS COMMUNICATIONS WITH THE RULEMAKING AGENCY?

Answer: We do not take the view that because OMB's role is advisory and consultative, OMB does not have to make public any of its communications with the rulemaking agency. Frequently, OMB does make public filings for inclusion in the agency's rulemaking record. With regard to the examples you have raised:

- For EPA's asbestos rules we filed comments dated March 27, 1985 (Tab J).
- With regard to Ethylene Oxide, OMB's sent comments for the public record and for consideration by the Secretary of Labor which were dated June 14, 1984 (Tab K).
- With regard to EPA's drinking water standards OMB has made made three filings to the public record, letters of May 9, 1984 (Tab D), May 30, 1984 (Tab E) and April 26, 1985 (Tab G).
- And, with regard to OSHA's grain dust standards, OMB made a filing to the public record in an April 11, 1984 letter to Francis Lilly (Tab I).

Although we frequently do make written submissions to the agency rulemaking records for many rules, we do not believe that it is appropriate or practical to require that all communications between OMB and the rulemaking agencies be submitted in writing. Our reasons for objecting to this "logging" of communications between executive branch agencies is long standing. They are summarized in the attached May 30, 1985 letter to EPA (Tab L).

C. MR. MILLER, HAS ANY AGENCY EVER ENACTED A REGULATION OVER OMB'S OBJECTION UNDER THE EXECUTIVE ORDER REVIEW? IF YES, WHICH ONES?

Answer: Yes. Agencies do not "enact" regulations, but they have promulgated regulations over OMB objections. They do so because of statutory and judicial deadlines or after they have objected to OMB's advice and after review by others, and sometimes without it. Some examples follow:

Oil and Gas Lease Lottery

The Office of Information and Regulatory Affairs in OMB objected

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to the proposed draft rule that would amend oil and gas leasing lottery procedures. After seeking advice informally from the OMB Director and President Reagan, the Secretary of Interior published it. OIRA subsequently filed its objections during the comment period for the Department of Interior to consider in developing its final rule. The April 16, 1984 letter is attached at Tab M.

Occupational Standards for Ethylene Oxide

The Occupational Safety and Health Administration (OSHA) published on June 15, 1984, a final rule to reduce the exposure to ethylene oxide. The Office of Management and Budget (OMB) in its June 14, 1984 letter (Tab K) to the Department of Labor raised two concerns with the rule as submitted for Executive Order No. 12291 review: (1) the rule, by requiring general engineering controls wherever "feasible" and regardless of cost, would needlessly prohibit more cost-effective means of achieving the rule's health objectives; and (2) the short-term exposure limit was unsupported by any reasonable risk assessment or inference from the available scientific evidence. OSHA proceeded to publish a final regulation that required engineering controls wherever feasible.

Fluoride Drinking Water Standards

On March 22, 1985, the Environmental Protection Agency (EPA) submitted to the Office of Management and Budget (OMB) for review under Executive Order No. 12291 a draft notice of proposed rulemaking (NPRM) that would establish a Recommended Maximum Contaminant Level (RMCL) for fluoride in drinking water. EPA was proceeding with this rulemaking under the supervision of the court and according to a schedule set out in a consent agreement with the State of South Carolina.

OMB raised major concerns about the draft NPRM in a letter dated April 26, 1985 (Tab G). The letter submitted OMB's comments pursuant to Section 3(f)(2) of Executive Order No. 12291, and stated that EPA should respond as required by Section 3(f)(2) and Section 8(a)(2) of the Executive Order, consistent with the consent agreement.

EPA proceeded to publish the NPRM as it was submitted to OMB, meeting the consent agreement schedule (50 FR 20164, May 14, 1985).

On October 18, 1985, EPA submitted the draft final RMCL and proposed Maximum Contaminant Level (MCL) regulatory package for OMB review. The concerns that OMB had raised about the NPRM still existed in the draft final rule, and OMB verbally discussed this with EPA.

Again, in order to meet the consent agreement schedule, EPA decided to proceed with publication as permitted by Section 8 of the Executive Order despite our objections (50 FR 47142, November 14, 1985).

Occupational Exposure to Cotton Dust

In May 1983, the Office of Management Budget (OMB) objected to a proposed Occupational Safety and Health Administration health standard on occupational exposure to cotton dust. OMB felt that a more flexible approach to methods of compliance would significantly lower the costs of the standard without decreasing worker protection. After the Department of Labor (DOL) rejected OMB's recommendations, it was agreed that the Presidential Task Force on Regulatory Relief, chaired by the Vice President, would

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resolve differences between the two. Following the Task Force's discussion of the unresolved issues, DOL published its original proposed rule on June 10, 1983.

Heavy Duty Truck Emission for NO_x and Particulate Matter

On March 15, 1985, EPA published final emission standards for NO_x and particulate matter emissions from heavy-duty trucks and buses. OMB objected to the NO_x emission limits because further NO_x control was not necessary in order to ensure attainment and maintenance of the NO_2 ambient standard and further control would aggravate urban ozone problems. Given the uncertain benefits of the NO_x standards, the increase in truck manufacturing and operating costs was excessive. OMB objected to the diesel particulate standards because the costs were excessive for the benefits expected. Futhermore, the durability requirements exceeded any reasonable expection of the capability of technology currently under development, rather than meeting the statutory requirement that the standards reflect the "technology which the Administrator determines will be available for the model year to which such standards apply ..." EPA published the rule without significant revision in March 1985.

HUD/Lead-base Paint Rule

On Friday, February 14, 1986, HUD published in the Federal Register, despite our objections, a proposed rule requiring the testing for, and abatement of, lead-based paint hazards in HUD's Public and Indian Housing program. HUD published the rule, essentially unchanged, to meet the court ordered deadline of February 15, 1986. The proposed rule would require public housing authorities to test and abate the hazards of lead-based paint for all public housing constructed before 1977, despite the fact that the Court of Appeals did not require testing and abating lead-based paint hazards in housing communities built after 1950. We estimate HUD's rule will cost the Federal Government at least $600 million to $1 billion (over the next five years) and will generate benefits of less than $200 million.

D. APPROXIMATELY HOW MANY RULES HAS OMB REVIEWED UNDER THE EXECUTIVE ORDER?

AT WHAT POINT DOES SUCH A LENGTHY EXECUTIVE ORDER "REVIEW", WITHOUT ANY WRITTEN COMMENTS, CONSTITUTE AN EVASION OF THE DISCLOSURE REQUIREMENTS OF THE CLEAN AIR ACT, AND OF THE SPECIAL DISCLOSURE PROCEDURES FOR OMB REVIEWS OF EPA RULES?

Answer: As of December 31, 1985, the Office of Information and Regulatory Affairs (OIRA) in OMB had reviewed, under Executive Order No. 12291, over 5,100 proposed agency rules and over 7,000 final agency rules--a total of over 12,100 rulemaking actions. This averages about 90 proposed rules and 125 final rules per month.

For the same time period, OIRA reviewed under the Paperwork Reduction Act (44 USC Chapter 35) an average of 4,000 proposed agency information collections per year, many of which were recordkeeping or reporting requirements contained in or mandated by agency regulations.

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E. CAN OMB EXTEND THE TIME PERIOD FOR REVIEW OF A RULE INDEFINITELY, AND USE THIS DELAY POWER TO FORCE CHANGES BY AN AGENCY?

Answer: OMB does not extend the time period for review of rules indefinately, nor does OMB use the delay power to force changes by an agency. E.O. 12291 provides 10 days for OMB review of non-major rules. For major rules, the Order affords 60 days of review for a proposed rule, 30 days for final ones. All of these review periods may be extended by notice from OIRA to the agency concerned.

From February 1981, when President Reagan signed E.O. 12291, to December 31, 1985, the statistics for OIRA E.O. 12291 reviews are the following:

- OIRA reviewed a total of 331 "major" rules from all the Departments and agencies subject to the Executive Order. Review of "major" proposed rules averaged about 43 days; review of "major" final rules averaged about 26 days. Reviews of all "major" rules averaged 32 days.
- OIRA also reviewed a total of 11,914 non-major rules under E.O. 12291 in an average of 16 days.
- 81% of all rules were reviewed in 10 days or fewer; 90% were reviewed within 30 days.
- The number of rules reviewed annually has declined slightly -- from 2,803 in 1981, to 2,211 in 1985.

Various parties have expressed particular interest concerning our reviews of EPA regulations:

- Since March 1981, when we began our computerized tracking system, we reviewed 1,947 EPA regulations.
- In 1981, OIRA reviewed 734 EPA regulations. In December 1981, we exempted State Implementation Plan (SIP) approval rules from our review. As a result, we reviewed only 341 EPA rules in 1982, 268 in 1983, 303 in 1984, and 302 in 1985.
- Review time for the 1,947 EPA rules covered since March 1981 has averaged 20 days.
- 73% of all EPA rules were reviewed in 10 days or fewer; 86% were reviewed in 30 days or fewer; and 92% were reviewed in 60 days or fewer.
- On average, 34 days have elapsed following our completion of review before EPA has published a rule in the Federal Register.

2. HOW DO YOU PROPOSE TO COMPLY WITH THE PORTION (PAGE 9) OF THE EDF v. THOMAS FEDERAL DISTRICT COURT DECISION WHICH STATES THAT IT IS INCOMPATIBLE WITH THE WILL OF CONGRESS AND THE CONSTITUTION FOR OMB TO WITHHOLD APPROVAL OF AN AGENCY'S REGULATION UNTIL THE AGENCY (IN THAT CASE IT WAS EPA) ACCEPTS OMB'S PROPOSALS TO CHANGE THE REGULATION?

Answer: The applicable portion of the District Court's January 28, 1986 Order and Declaration in EDF v. Thomas states that:

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"... it is further
"DETERMINED AND DECLARED that defendant Office of Management and Budget has no authority to delay the promulgation of final permitting standards for underground tanks pursuant to Section 3004(w) of RCRA by withholding approval of the standards past June 30, 1986; and it is further
"DETERMINED AND DECLARED that defendant Office of Management and Budget has no authority to delay the promulgation of EPA regulations arising from the Hazardous and Solid Waste Amendments of 1984 of the RCRA, Pub. L. 98-616 (Nov. 8, 1984), by withholding approval past statutory or judicial deadlines."

This Determination and Declaration does not order OMB to do anything.

On February 11, 1986, the Government filed a Motion to Alter or Amend the Judgment, or in the Alternative, for Clarification, requesting the Court to eliminate these last two paragraphs or, in the alternative, clarify the meaning of these paragraphs, or indicate what the jurisdictional basis for these determinations were. We will complete our analysis of this Court's Order and Declaration after the court decides this motion. Attached are copies of this Court Order (Tab N) and Declaration of the Government's Motion (Tab H).

3. A. **IS IT CORRECT THAT OMB DENIED EPA'S REQUEST IN ITS FY 87 BUDGET FOR FUNDS TO IMPLEMENT ITS ASSESSMENT OF THE RADON HAZARD IN HOMES AND BUILDINGS AND THAT THIS DENIAL WAS REVERSED ONLY AFTER A STRONG APPEAL BY EPA?**

Answer: EPA's initial budget request did not make clear its distinction with the ongoing, much more extensively funded, radon program at DOE. Outside of the national home survey which itself embodied FOIA issues, EPA's proposed plan called for activities already included in DOE's longstanding program. Since DOE has studied radon since 1968 and indoor radon specifically since 1977, and since 1986 funding for DOE was $7M, EPA's request was denied to avoid duplication.

A second issue that had to be confronted was to determine the proper role needed for a regulatory agency like EPA, in what all participants agree is a non-regulatory issue. This is particularly relevant since adequate expertise already exists in non-regulatory agencies.

After discussions with EPA subsequent to passback, it was agreed that EPA's expertise could make an important contribution to assessing the problem and would be essential to the overall efforts of the Committee for Interagency Research and Policy Coordination.

B. **WHAT EXPERTISE IN THE SUBJECT DID OMB HAVE TO GIVE IT THE CONFIDENCE TO ASSERT, INCORRECTLY, IN THE BUDGET PASSBACK TO EPA THAT EPA'S PROGRAM WOULD DUPLICATE A DOE ACTIVITY?**

Answer: Based on our analysis of EPA's and DOE's budget submissions, the activities described were the same, with the exception of the national survey which DOE had rejected previously as inappropriate.

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C. THE BUDGET PASSBACK FROM OMB (AT ITEM F-7) INDICATES THAT OMB'S REJECTION WAS ALSO BASED ON ITS VIEW THAT WE SHOULDN'T LEARN WHETHER FAMILIES WERE BEING EXPOSED IN THEIR RESIDENCES TO UNACCEPTABLE RADON LEVELS BECAUSE SUCH KNOWLEDGE WOULD MAKE IT HARDER TO SELL SUCH HOMES TO UNSUSPECTING PURCHASERS. CAN YOU PROVIDE THE ANALYSIS UPON WHICH OMB'S INITIAL ASSESSMENT OF THIS BALANCE OF HOME SALES AGAINST RADON EXPOSURE TO UNSUSPECTING PRESENT AND FUTURE RESIDENTS WAS BASED?

Answer: Obviously the OMB passback document did not try to balance home sales against potential radon exposure. It questioned the willingness of homeowners to be the subject of a random sample of homes since the information collected would be made public. OMB also questioned the ability of EPA's survey to approach a representative sample if voluntary participation by homeowners was not widespread. Any homeowner can test on their own, or have their home tested by commercial establishments inexpensively and confidentially.

4. A. WHAT HAS CAUSED THE HOLD-UP IN OMB REVIEW, PENDING SINCE FEBRUARY 1985, OF THE ARSENIC STANDARDS WHICH EPA WAS REQUIRED BY THE CLEAN AIR ACT TO ISSUE OVER TWO YEARS AGO?

Answer: The Clean Air Act statutory deadline requires that EPA propose standards six months after listing a substance as a hazardous air pollutant and promulgate standards six months after proposal. The attached chart shows EPA's experience over the past decade attempting to meet this unrealistic statutory mandate. For example, benzene was listed on June 8, 1977; yet the agency was unable to issue proposed rules until 1980.

We have been working with EPA to resolve serious problems with its arsenic rule. EPA's draft final rule would control only a small fraction of the small risk posed by the arsenic emissions from industrial sources. The rule would require further control at one copper smelter (out of 14), one glass plant (out of 4 uncontrolled plants), and establish some additional housekeeping and monitoring requirements at a single arsenic trioxide plant. The required control at these plants would achieve very small reductions in cancer risk (one cancer or less per decade for each plant). EPA is now reviewing the need for NESHAP regulation for a number of other substances. In our view, especially given the resources available to EPA, the Agency's resources need to be directed toward significant public health risks--they should not be squandered in addressing such small risks.

When EPA began this rulemaking, the risks posed by arsenic emissions from these sources appeared to be much higher than is the case today (especially with the closing of the copper smelter in Tacoma, Washington). As a result, EPA would be imposing regulations on a few arsenic sources under circumstances that appear to be quite comparable--in terms of the small risk reduction achieved and the few sources involved--to situations where EPA has recently decided not to require further control. EPA has already made a policy decision that further regulation under NESHAP is not necessary where risks are de minimis.

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Chronology for NESHAP Rulemaking

Benzene:	Listed	June 8, 1977
	NPRM (Maleic Anhydride)	April 18, 1980
	NPRM (Ethylbenzene/Styrene)	December 18, 1980
	NPRM (Benzene Storage Vessels)	December 19, 1980
	NPRM (Benzene Equipment Leaks)	January 5, 1981
	Proposal to Withdraw NPRM 1. Maleic Anhydride 2. Ethylbenzene/Styrene 3. Benzene Storage	March 6, 1984
	Final Rule-Benzene Equipment Leaks	June 6, 1984
	Withdrawal of NPRM's 1. Maleic Anhydride 2. Ethlbenzene/Styrene 3. Benezene Storage	June 6, 1984
	NPRM-Coke By-Product Plants	June 6, 1984
Radionuclides:	Listed	December 27, 1979
	NPRM 1. Elemental Phosphorus 2. DOE Facilities 3. NRC Facilities 4. Underground Uranium Mines	April 6, 1983
	Withdrawal of Proposal Standards	October 31, 1984
	Final Rule 1. Elemental Phosphorus 2. DOE Facilities 3. NRC Facilities	February 6, 1985
	Final Rule for Uranium Mines	April 17, 1985
Arsenic:	Listed	June 5, 1980
	NPRM	July 20, 1983
	Draft Final Rule Submitted to OMB	February 26, 1985
Coke Oven Emissions:	Listed	September 18, 1984
	Draft NPRM Submitted to OMB	January 16, 1986

B. UNDER THE CLEAN AIR ACT, AND UNDER EPA'S SPECIAL PROCEDURES FOR OMB REVIEWS, ALL WRITTEN COMMENTS FROM OMB ON THE ARSENIC RULE SHOULD BE PUBLICLY AVAILABLE. IN RECORD ANSWERS TO MY QUESTIONS, EPA CLAIMS THEY HAVE NO WRITTEN COMMENTS FROM OMB ON THESE RULES. ARE THERE NONE?

Answer: There has been no formal submissions by OMB to EPA with regard to the Arsenic rule. On the other hand, data and information analysis of the rule have been made available to EPA. Examples of that material are attached.

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Table I

Costs and Risk Reduction for NESHAP Source Categories

	Risk @ Current Emission Level: Individual Annual Risk	Risk @ Current Emission Level: Cancer Incidence (cases/year)	Change in Cancer Incidence w/ Regulation (cases/year)	Cost of NESHAP Rule: Capital (10^6)	Cost of NESHAP Rule: Annual (10^6)	Cost per Cancer Avoided (10^6/ cancer): Undiscounted	Cost per Cancer Avoided (10^6/ cancer): 10% Disc. Rate
NESHAP Regulation Accepted							
Benzene Sources (1984)							
Fugitive Emissions [1]	21×10^{-6}	0.45	0.31	5.5	0.4	1.3	5.3
Coke By-Product Plants (NPRM) [2]	100×10^{-6}	2.2	2.0	23.8	[3]	[3]	[3]
Radionuclide Sources (1984)							
Uranium Mines [4]	143×10^{-6}	2.0	0.1-2.0	--	0.2-2.0	1.1-2.2	4.6-9.2
Arsenic Sources (Draft Rule)							
Copper Smelter	18×10^{-6}	0.45-0.65	0.06	1.8	0.38	4.2 [5]	17.4 [5]
Glass Plant	13×10^{-6}	0.27	0.11	2.6	0.53	4.2 [5]	17.6 [5]
NESHAP Regulation Rejected							
a) **Benzene Sources** [6]							
Maleic Anhydride	1.1×10^{-6}	0.029	0.005	1.4	0.25	50	210
Ethylbenzene/Styrene	2.0×10^{-6}	0.0057	0.0045	0.49	0.177	39	165
Benzene Storage	0.6×10^{-6}	0.043-0.11	0.008-0.06	0.66	0.11	1.8-14	7.5-60
b) **Radionuclide Sources** [7]							
DOE Facilities	4.3×10^{-6}	0.065	0.001	0.4	0.05	50	210
Elemental Phosphorus	14.0×10^{-6}	0.06	0.046	11.0	3.0	65	270
NRC Facilities	3.0×10^{-6}	0.02	N.C.	0	0	--	--

1/ 49 FR 23498 (June 6, 1984).
2/ 49 FR 23522.
3/ Net savings.
4/ 50 FR 5190.
5/ Includes an adjustment for the benefits of incidental control of particulate matter and lead emissions.
6/ 49 FR 8386 (\$1982).
7/ 49 FR 43906.

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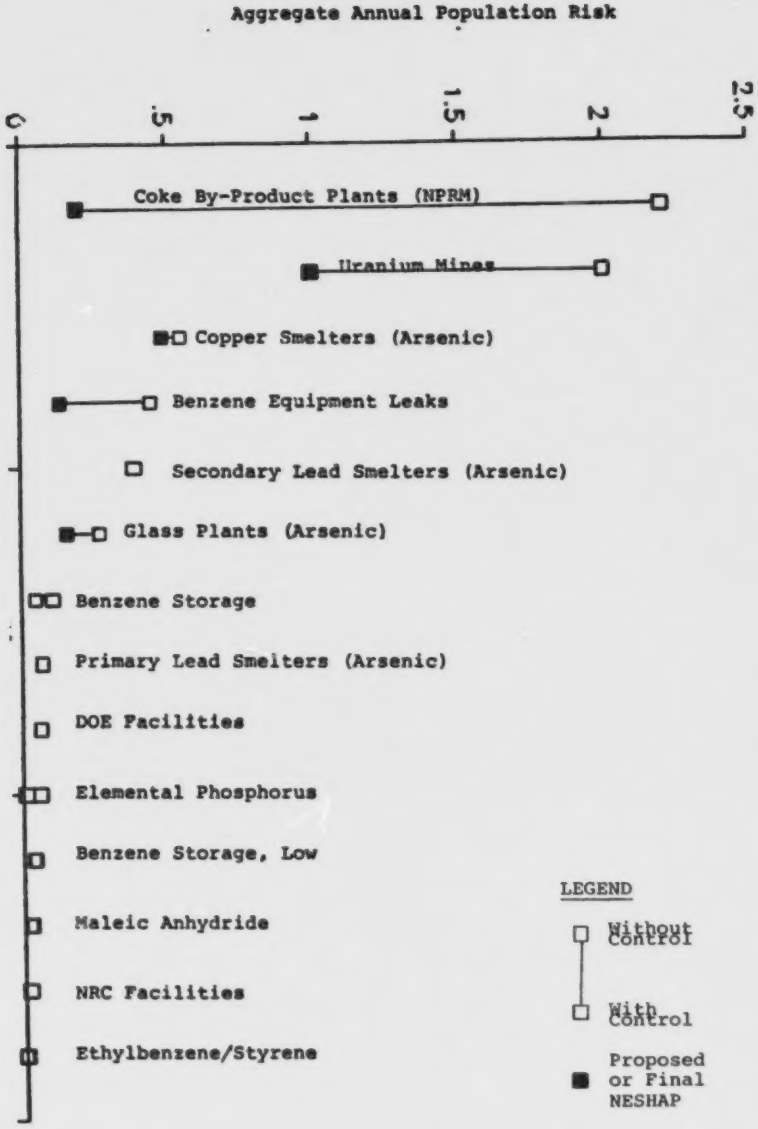

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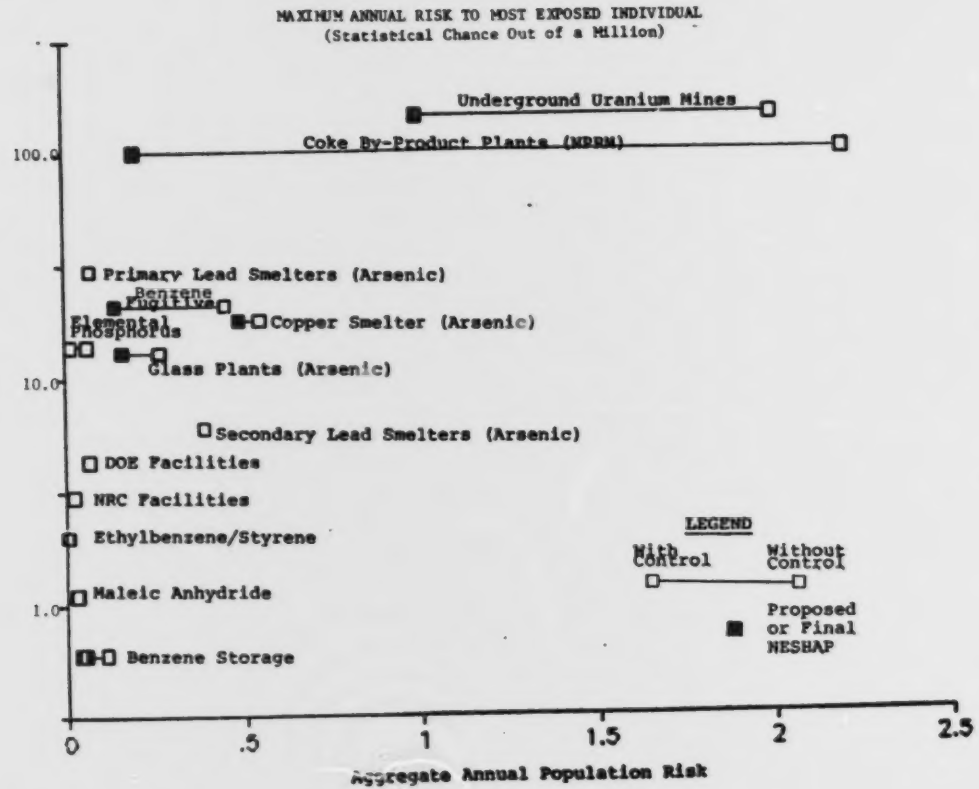
MAXIMUM ANNUAL RISK TO MOST EXPOSED INDIVIDUAL
(Statistical Chance Out of a Million)
Underground Uranium Mines
Coke By-Product Plants (NRDM)
100.0
Primary Lead Smelters (Arsenic)
Benzene
Fugitive
Elemental
Phosphorus
Copper Smelter (Arsenic)
Glass Plants (Arsenic)
10.0
Secondary Lead Smelters (Arsenic)
DOE Facilities
NRC Facilities
Ethylbenzene/Styrene
Maleic Anhydride
1.0
Benzene Storage
LEGEND
With Control
Without Control
Proposed or Final NESHAP
0
.5
1
1.5
2
2.5
Aggregate Annual Population Risk

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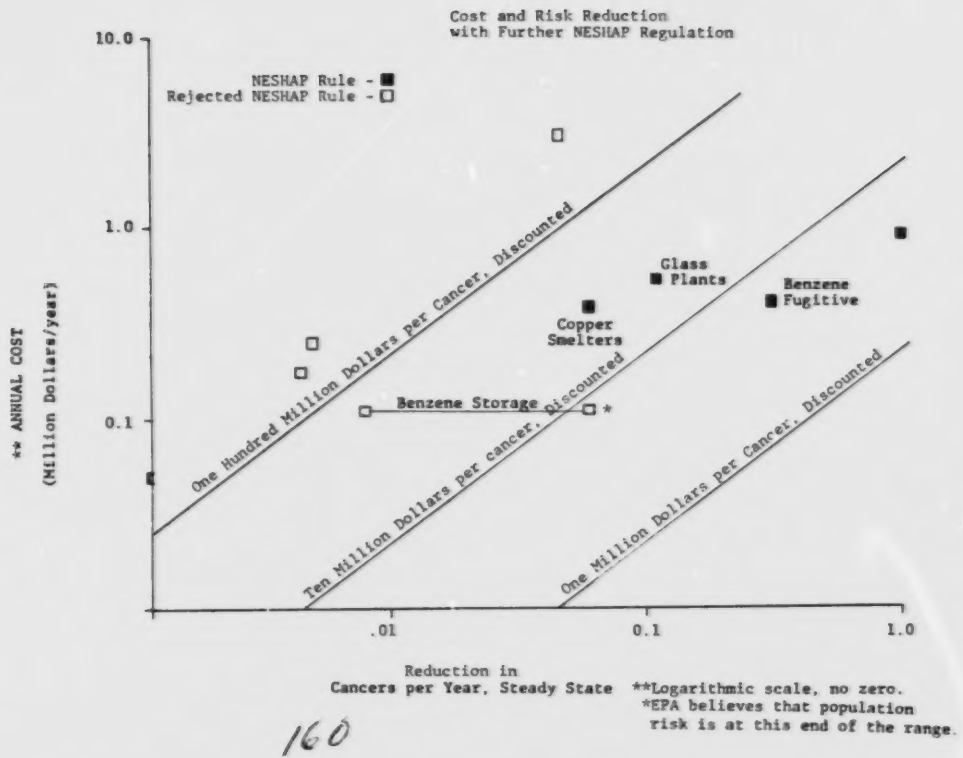

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C. IS IT POSSIBLE THAT OMB HAS SIMPLY MADE NO COMMENTS, BUT HAS KEPT THE RULES UNDER "REVIEW" FOR A YEAR?

Answer: There have been numerous meetings with EPA in an attempt to see if these rules can be made consistent with the President's regulatory principles. They have been unsuccessful so far. Nonetheless, we hope to complete our review soon.

OMB reviews under Executive Order No. 12291 are not lengthy, either for EPA rules or for all agency rules. Indeed, for the first five years of the Executive Order review process, the average review time taken by the Office of Information and Regulatory Affairs (OIRA) in OMB was 16 days per regulation. Since March 1981, when OIRA began a computerized tracking system, to December 31, 1985, OIRA reviewed 1,947 EPA regulations in an average of 20 days. (See answer to Supplemental Question 1. E.

OMB does not evade the special disclosure requirements that are outlined in the May 30, 1985 letter to EPA (Tab L). Nor, to OMB's knowledge, does EPA evade the disclosure requirements in the Clean Air Act.

5. A. PLEASE PROVIDE THE FUNDING LEVEL BEING REQUESTED IN OMB'S OWN FY 87 BUDGET WHICH WILL BE ALLOCATED TO THE OFFICE OF INFORMATION AND REGULATORY AFFAIRS (OIRA).

B. HOW MUCH OF THIS WILL BE FOR OIRA'S REVIEWS UNDER THE PAPERWORK REDUCTION ACT, AND HOW MUCH WILL BE FOR OIRA'S REVIEWS UNDER THE EXECUTIVE ORDERS?

C. PLEASE PROVIDE THE FIGURES REQUESTED IN QUESTIONS 5A AND 5B AS ACTUALLY EXPENDED IN EACH OF THE FISCAL YEARS 1981 THROUGH 1985, THE SAME FIGURES FOR FY 86 TO DATE, AND THE ESTIMATED EXPENDITURES FOR ENTIRE FY 1986.

Answer: OIRA budgets since its establishment have been:

	Expended
FY 1981	4,332,000
FY 1982	4,509,000
FY 1983	4,623,000
FY 1984	5,095,000
FY 1985	5,383,000
FY 1986 (To Date)	1,577,000
FY 1986 (Estimate)	4,906,000
FY 1987 (Request)	5,408,000

The Office of Information and Regulatory Affairs (OIRA) in OMB combines Executive oversight of information resources management and regulatory development because OIRA's Paperwork Reduction Act responsibilities and OMB's role under Executive Orders No. 12291 and No. 12498 are highly complementary. It would be impossible to allocate costs between OIRA's two main activities. About 80 percent of the total Federal reporting burden in FY 1985, excluding procurement, were for regulatory purposes that require simultaneous and interrelated reviews of regulations and paperwork.

OIRA has designated most of its staff to serve as "desk officers" of one or more executive branch agencies. Supported by economists and statisticians, the desk officer oversees the information policy, paperwork, and regulatory activities of the

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assigned agencies. This provides a consistent, clear line of responsibility for oversight and appropriate coordination of regulatory and information activities.

As a result, our paperwork and regulatory responsibilities are completely intertwined, both in terms of staff and use of funds.

INTERNAL CONTROL AND ACCOUNTING

(6) **GAO, IN ITS LATEST FIA REPORT, SAYS THAT WEAKNESSES AND BREAKDOWNS IN AGENCY SYSTEMS OF INTERNAL CONTROL RESULT IN "LOSSES TOTALING BILLIONS OF DOLLARS."**

DO YOU HAVE ANY REASON TO DISAGREE?

IF MAJOR DEFICIENCIES REMAIN IN THE GOVERNMENT'S INTERNAL CONTROL AND ACCOUNTING SYSTEMS, HOW CAN YOU BE SURE THAT BILLIONS OF DOLLARS ARE NOT BEING LOST?

Answer: We agree with GAO that many weaknesses exist in agency internal control systems. In responding to the draft GAO report, we pointed out that agencies had disclosed 335 material weaknesses in response to the Federal Managers Financial Integrity Act, and that GAO had found 4 more. These weaknesses do represent potential losses, but we cannot confirm the GAO estimate of "losses totaling billions of dollars."

Among the weaknesses reported by the agencies was at least one -- control over food stamps -- that involves estimated annual losses in the billion dollar range. However, most other weaknesses involved far less in actual losses. GAO did not provide supporting details for its estimate. Regardless of the amount of potential losses, however, we will continue to do all that we can to strengthen agency systems and to assure full accountability for Federal funds.

EPA QUESTIONS

(7) MR. MILLER, IN FISCAL YEAR 1981, EPA'S OPERATING BUDGET, WHICH INCLUDES EVERYTHING EXCEPT THE SUPERFUND AND CONSTRUCTION GRANTS PROGRAMS, WAS APPROXIMATELY $1.35 BILLION. THE ADMINISTRATION'S FY'87 PROPOSAL, $1.37 BILLION, BARELY EXCEEDS THE 1981 FIGURE. IN FACT, ACCORDING TO A CBO ANALYSIS, EPA WOULD NEED $1.74 IN FY'87 JUST TO HAVE THE SAME PURCHASING POWER THE AGENCY HAD IN 1981. YOUR BUDGET PROPOSAL REPRESENTS AN ALMOST 30% SHORTFALL.

SINCE 1981 EPA HAS RECEIVED SIGNIFICANT ADDITIONAL RESPONSIBILITIES IN THE 1984 AMENDMENTS TO THE RESOURCE CONSERVATION AND RECOVERY ACT TO REGULATE THE DISPOSAL OF HAZARDOUS WASTE AND EPA HAS INITIATED OR EXPANDED PROGRAMS IN A NUMBER OF AREAS SUCH AS ACID RAIN, AIR TOXICS, RADON AND GROUNDWATER PROTECTION.

HOW CAN EPA DO A CREDIBLE JOB WITH ADDITIONAL RESPONSIBILITIES AND FEWER RESOURCES IN REAL TERMS THAN IT HAD IN 1981?

Answer:

In considering a regulatory/enforcement Agency such as EPA, a comparison over time is only relevant if the mix of activities remains the same throughout the period. In EPA, the mix changes dramatically from year to year. Some programs complete their regulatory mission and are phased out or delegated to the states, and other new programs begin their regulatory mission.

There are several reasons why EPA can do a credible job with fewer resources in real terms than it had in 1981. First, there have been no new legislative requirements imposed on EPA since 1981, except for the 1984 Amendments to RCRA. Budgetary resources for that program have increased steadily since 1984--and will dramatically increase again in FY 1987.

Second, when viewed by appropriation account EPA resources are increasing. The research and development, and regulatory/compliance accounts have both increased from 1984-1986. The salaries and expenses account increased steadily from FY 1983 except for 1986 which is slightly reduced due to Gramm-Rudman-Hollings reductions, but will again increase $33M in FY 1987. These increases in the current and prior years--as well as the FY 1987 President's Budget--have enabled the Agency to address significant, emerging environmental issues on both a media-specific and cross-cutting basis.

Third, and most importantly, the Agency is always able to shift resources from lower priority programs (or programs completing their mission) to meet higher priority (or newly emerging) program needs. A few examples:

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- Within the air program, increased emphasis is placed on addressing hazardous air pollutants as part of the Air Toxics Strategy.

- Within the water program there has been a shift from program development to program implementation. There has also been a reduction in the water program due to completion of court-ordered effluent regulations and phaseout of the construction grants program. However, there have been increases in enforcement to implement the National Municipal Policy.

- The RCRA program has increased dramatically since 1984 and the passage of the 1984 Amendments. As one of the Agency's highest priorities since 1984, RA has increased by 100% and staff resources have expanded by almost 50%.

As these few examples demonstrate, as long as EPA's budget is viewed as a dynamic set of activities it is quite reasonable to expect that meeting new obligations can be accomplished without large annual increases in budgetary resources.

CONSTRUCTION GRANTS

(8) YOUR PROPOSAL FOR FUNDING CONSTRUCTION GRANTS CALLS FOR A PHASING OUT OF BY THE END OF FY'89 AND A PROHIBITION ON THE FUNDING OF NEW CONSTUCTION STARTS. EPA'S 1984 NEEDS SURVEY INDICATES THAT THERE IS A BACKLOG OF OVER $100 BILLION SEWAGE FACILITY PROJECTS. AT THE SAME TIME, MUNICIPALITIES ARE FACING THE 1988 DEADLINE FOR PROVIDING SECONDARY TREATMENT. MUNICIPALITIES WHICH FAIL TO MEET THIS AND OTHER REQUIREMENTS MAY BE SUBJECT TO CONSTRUCTION BANS. IN NEW JERSEY OVER 100 MUNICIPALITIES ALREADY ARE SUBJECT TO CONSTRUCTION BANS BECAUSE OF INADEQUATE SEWAGE TREATMENT.

MOST STATES AND LOCAL GOVERNMENTS ARE UNDER RESTRICTIONS, MANY CONSTITUTIONAL, WHICH LIMIT THE AMOUNT OF GOVERNMENT BACKED DEBT WHICH CAN BE ISSUED TO FINANCE CAPITAL CONSTRUCTION.

IN PREPARING YOUR PROPOSAL TO PHASE OUT THE CONSTRUCTION GRANTS PROGRAM, DID THE ADMINISTRATION DO AN ANALYSIS OF THE EXTENT TO WHICH STATE AND LOCAL GOVERNMENTS WILL BE ABLE TO ISSUE DEBT OBLIGATIONS TO FUND SEWAGE FACILITY CONSTRUCTION?

IF YES:
PLEASE PROVIDE THE COMMITTEE WITH A COPY. WHAT DID THE ANALYSIS SHOW?

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IF NO:
HOW CAN YOU PROPOSE TO TRANSFER THIS RESPONSIBILITY TO STATE AND LOCAL GOVERNMENTS WHEN YOU HAVE NO IDEA IF THESE ENTITIES ARE ABLE TO ACCEPT THE RESPONSIBILITY?

DID THE ADMINISTRATION CALCULATE THE IMPACT OF SLOWED ECONOMIC GROWTH THAT WOULD RESULT FROM THE IMPOSITION OF CONSTRUCTION BANS?

Answer:

No formal analysis of state or local debt ceilings was needed since there are many alternatives to Federal funding. Those municipalities not affected by debt ceilings can issue long term bonds financing treatment capacity in the traditional manner. Those restricted by debt ceilings can charge local water and sewer fees that fully cover O&M as well as capital costs for construction and rehabilitation. It is well known that over half of all systems do not now charge fees sufficient to properly operate and maintain their systems. All systems have some user charge system in place which can be easily expanded to meet future needs.

Many states have instituted programs or are seriously considering programs which provide financial aid to municipalities for sewage treatment. State aid has taken many forms ranging from increased appropriations to establishing revolving loans, infrastructure banks or other capital funds. Revolving funds are now operational in 12 States and under study in 21 States. Eleven States have their own infrastructure banks that operate loan or bond programs.

For new project starts, a rapidly growing interest by the private sector to build and/or operate treatment plants provides an additional alternative not subject to debt ceilings.

SUPERFUND

(9) THE PRESIDENT'S BUDGET FOR SUPERFUND PROVIDES $1.05 BILLION IN BUDGET AUTHORITY FOR FY'87. THIS FIGURE IS CONSISTENT WITH THE ADMINISTRATION'S ORIGINAL PROPOSAL FOR A $5.3 BILLION PROGRAM OVER 5 YEARS. THIS PROPOSAL IS 33% BELOW THE $7.5 BILLION LEVEL APPROVED BY THE SENATE AND JUST UNDER 50% OF THE $10 BILLION APPROVED BY THE HOUSE. IT IS CLEAR THAT THE CONFEREES ARE GOING TO ARRIVE AT A LEVEL OF FUNDING IN THE RANGE OF $7.5 TO $10 BILLION.

THE BUDGET APPENDIX CONTAINS THE FOLLOWING STATEMENT:

"A REVISED REQUEST WILL BE DEVELOPED AND SUBMITTED TO CONGRESS ONCE THE PROGRAM IS REAUTHORIZED."

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WHAT EXACTLY DOES THIS STATEMENT MEAN? ARE YOU READY TO SEEK A SUPPLEMENTAL BUDGET REQUEST FOR THE LEVEL CONGRESS AGREES ON?

IS THE ADMINISTRATION READY TO WORK WITH CONGRESS IN SUPPORT OF A LEVEL HIGHER THAN THE $5.3 BILLION ORIGINAL RECOMMENDATION?

Answer

The President's 1987 budget request for Superfund of $1,050 million reflects the budget planning level consistent with the President's $5.3 billion legislative proposal for reauthorizing the program. Many activities and several Agencies would normally be allocated funds within that total to carry out Superfund activities. The decision was made, however, not to develop a 1987 budget proposal in any detail due to the Congressional delay in reauthorizing the program and uncertainty as to the specific requirements the revised legislation would impose. At the time our budget process began, neither the House nor Senate had passed a bill and only one of five House Committees with jurisdiction had even reported a bill. Consequently, the Administration decided that development of a detailed 1987 budget for Superfund should wait until after new legislation is enacted.

The Administration still strongly opposes enactment of a program that exceeds $5.3 billion over 5 years, since this is the maximum level that EPA can manage effectively. However, once the program is reauthorized, the Administration will revise the 1987 Superfund budget level, if necessary, to implement those requirements of the new legislation which have 1987 budget implications.

COMMITTEE RECESS

Senator ABDNOR. Thank you very much. The committee stands adjourned.

[Whereupon, at 4:24 p.m., Wednesday, February 19, the committee was recessed to reconvene February 26, 1986.]

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BUDGET OVERVIEW FOR FISCAL YEAR 1987

WEDNESDAY, FEBRUARY 26, 1986

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The committee met at 1:10 p.m. in room SD–192, Dirksen Senate Office Building, Hon. Mark O. Hatfield (chairman) presiding.

Present: Senators Hatfield, Stevens, Weicker, Abdnor, Kasten, D'Amato, Mattingly, Domenici, Stennis, Chiles, Johnston, Sasser, DeConcini, and Lautenberg.

COMMITTEE ON APPROPRIATIONS

VIEWS AND ESTIMATES REPORT TO THE BUDGET COMMITTEE

OPENING STATEMENT OF CHAIRMAN HATFIELD

Chairman HATFIELD. The committee will please come to order.

This afternoon, we will first deal with a couple of routine matters before hearing the CBO Director, Rudolph Penner, on his analysis of the President's 1987 budget request.

The first item on the agenda is our Views and Estimates Report to the Budget Committee, which is required under the Budget Act. In many respects, it is much too early to make even the most general recommendations to the Budget Committee on the appropriate level of spending for programs within our jurisdiction, since we have had the budget for only 3 weeks and have only just begun our hearings process.

However, I believe we should attempt to provide the Budget Committee with some guidance before they begin their markup, and accordingly, the draft report which has been distributed to your offices yesterday makes recommendations by subcommittee in terms of a low estimate and a high estimate. These recommendations were developed by staff and have, in most cases, been reviewed by the Chairman and ranking members of the subcommittees concerned. I emphasize that this report is preliminary and general in nature, and there is no attempt to present precise estimates at this time.

Is there any objection at this point to transmit this preliminary view by the committee on the review of the President's budget to the Budget Committee?

Senator DOMENICI. Mr. Chairman?

Chairman HATFIELD. The Senator from New Mexico?

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Senator DOMENICI. I have no objections, so I am not responding to that question. I would just like to make one or two observations. First, Mr. Chairman, and subcommittee chairmen and ranking members who work on this report, I not only recommend that you transmit it but commend you for your efforts. Frankly, this is a very difficult year. We have tried our best within the timeframe prescribed by law to ask all of the committees, as we asked you, Mr. Chairman, to tell us what they think they can do, and what their recommendations and approaches are to the fiscal year 1987 budget..

ACTIONS OF AUTHORIZING COMMITTEES

I will tell you that I have a summary of what they are telling us, and I will get that to you and this committee very soon, because I think it is terribly relevant. What I am finding is that very few of the authorizing committees have indicated that they would do any of the proposals that require serious changes in existing programs. Obviously their action would normally precede the action of the Appropriations Committee in the consideration of program terminations and reforms that are not in your jurisdiction.

Many have not analyzed them and have just said, "We can't do it" or "We will just wait and see."

We think that it is very helpful for the Appropriations Committee to do your report the way you have done it. We know that these are estimates. We know there are high and low ranges. Clearly, as this process evolves, we will be in constant consultation. I do think it is very helpful that you, Mr. Chairman, and the subcommittee chairmen and ranking members and your staff have done this report.

I personally want to say thank you, and I vote to submit it to the Budget Committee for its use.

Chairman HATFIELD. I appreciate the remarks by the Chairman of the Budget Committee.

The Chairman of the Budget Committee makes comment about the authorizing committees' response and what we might anticipate will be their action or inaction, not only on the matter of termination of programs that have been recommended in the President's budget, but also, as the Senator from New Mexico knows, we are dealing with such other matters as imposition of new user fees and the sale of capital assets, which will take authorizing legislation, and which, at this point in time, this committee certainly has no way to predict those actions or lack of action.

BUDGET DIFFERENTIAL

I think, as the Senator knows, also, that when you look at even the base upon which we start in terms of our estimates of reduction requirements in the President's budget and what the CBO will later testify this afternoon coinciding with the Budget Committee's estimates, that we are already at a point of a $15 billion-plus differential between what the President's assumption is on reductions and what the CBO will indicate is their best estimate at this time.

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I remember one meeting where they were talking in January, after we had reconvened, about a target figure of $50 billion. I don't think I am telling any matters that are out of school, but I remember our private conversations in that meeting where you indicated it is conceivable that it could go up to $60 billion rather than $50 billion, and then I believe, within about a 3-week period of time, we came out with a $38 billion figure out of the OMB. If all that can happen within 3 weeks in January, what will it be when we get the first quarter's report on the growth and other economic barometers that will be taken in the first quarter? That is not that far away from this point in time.

So we are dealing with some very difficult base lines, very difficult assumptions, and really, that is why this report has been a sincere effort by our committee, but certainly, it does not represent, out of the broadest bases, based on a lot of assumptions, that we are in any position to predict the outcome or the validity.

Does the Senator from Mississippi have any remarks?

Senator STENNIS. No, Mr. Chairman, I don't have any remarks.

Chairman HATFIELD. Then without objection, we will transmit this document to the Budget Committee for their consideration.

Senator DOMENICI. Mr. Chairman.

Chairman HATFIELD. The Senator from New Mexico?

USER FEES AND ASSETS SALES

Senator DOMENICI. I was remiss in my comment. You corrected me. I have not taken the time to tell you about the specific responses from the committees to the Budget Committee. I did not include them in my statement, but user fees and the sale of assets are subject to what I said before. There is either no response or the response is that the appropriate authorizing committees would not be able to do them.

So I think your assessment that those could not be done in the appropriations process is correct. If the authorizing committees don't do those, where do we find the $2.8 billion in one case and $2.6 billion in another that are already assumed for fiscal year 1987?

CHANGE IN OUTLAYS

I want to make one other observation. CBO's $16 billion reestimate in outlays needed to meet the Gramm-Rudman-Hollings target under the President's budget is more interesting than usual, because CBO assumes almost the same economics as OMB.

Chairman HATFIELD. Yes.

Senator DOMENICI. So that if the economic forecast is off in 4 or 5 months, the deficit overage would most logically be worse. Even using good assumptions, the budget could be $14 to $15 billion off the targeted $144 billion deficit under Gramm-Rudman-Hollings.

Chairman HATFIELD. Least it appear in the record that the Senator from New Mexico and myself are being a bit pessimistic about these matters——

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Senator DOMENICI. No.

PREDICTION ON RECONCILIATION

Chairman HATFIELD. ——I would only emphasize a point now, and that is the failure to get reconciliation in the last Congress. Would the Senator care to make any prediction as to what will happen to reconciliation at this point in time?

Senator DOMENICI. I believe, so long as Congress desires to solve all of its legislative problems in reconciliation, it will be no easier to pass such bills. The hang-up on reconciliation, aside from 8(G), which clearly was expected by everyone, is some 75 provisions that are irrelevant and were never assumed as part of any reconciliation package. That is what is causing the problem in enacting the reconciliation bill.

I see no break in that dam. If people want to do that, I don't know how we are going to use the reconciliation process.

I would hope reconciliation could be restricted to savings, and the extraneous legislation achieved in another way. I don't yet know how to get reconciliation bills as broad as those before us without expecting Congress to add extraneous provisions. In the future, I would hope that we won't necessarily accept those bills on the floor without trying to take out all extraneous provisions.

Senator JOHNSTON. Will the Senator yield for a question?

Senator DOMENICI. Absolutely.

OMNIBUS LEGISLATION BILL

Senator JOHNSTON. What do you say to the rumor that this year, we are just going to have one big bill, reconciliation, taxes and debt limit extension, the whole thing rolled into one thing.

Chairman HATFIELD. And all appropriations.

[Laughter.]

Senator JOHNSTON. And all appropriations.

Senator DOMENICI. Well, it seems to me that gets kind of veto proof, all right.

[Laughter.]

Senator DOMENICI. I don't know if many vetoes are going to come. But I have told the White House that if we want to get something done, we need to avoid vetoes on arrival. It doesn't seem to me that anybody here is in any position to send 15 or 20 bills, so maybe there will be one or two major opportunities.

Frankly, I would hope for all of us, and f· the members of the Senate and the House and the American people that we don't do business that way. It is pretty hard on everybody, and nobody knows what we are really doing, to tell you the truth, in those kinds of omnibus bills.

There is too much press here, but I was going to say, if they weren't here—they are here, I understand—that omnibus bills also get a signature from time to time over there on Pennsylvania Avenue.

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Senator JOHNSTON. They may not know what they are doing, but they don't know it once, and it might be better to not know it just once than many times.

[Laughter.]

Senator DOMENICI. That might be right.

BUDGET RESOLUTION ESTIMATE

Chairman HATFIELD. Does the Senator wish to comment on the time estimate for the Budget Resolution? As the Senator knows, under Gramm-Rudman, the Senate Appropriations Committee is locked into a situation where, if the Budget Resolution does not move by the stated time, we cannot move appropriations. Whereas on the House side, of course, that exemption exists in the law that provides the House Appropriations Committee to precede an appropriations if the Budget Resolution does not meet the date set in the law?

Does the Senator wish to make any predictions about how he anticipates the Budget Resolution process occurring?

Senator DOMENICI. Yes. Let me state that I think everybody knows that it won't serve any useful purpose for a Budget Resolution in either House to be brought to the floor that doesn't meet the $144 billion deficit target. That target is the law of the land under the Gramm-Rudman-Hollings Act. Since that is the case, any budget resolution reflecting a deficit in excess of $144 billion in fiscal year 1987 would require a three-fifths vote to bring it up on the floor.

So I don't intend to bring a budget resolution to the floor unless it meets the $144 billion deficit target, using consistent CBO estimates. Anybody that wants to amend it will have to have a three-fifths vote for an amendment to add to the deficit or find offsetting savings to make the amendment deficit neutral.

My hope still remains—and it hasn't paled a bit and will not in spite of Dr. Penner's testimony this afternoon—that we can get a budget resolution by April 1 and that it will be on the floor by then. Of course, I still hope that some ingredients that I think are necessary will be in that budget and will be voted in by a majority of my committee. Whether they are willing to do that, we will just wait and see, but I intend to do my best, Mr. Chairman.

BUDGET RESOLUTION TERMINATIONS

Chairman HATFIELD. Senator, could I follow that up with one further question? Will the Budget Resolution assume a certain number of terminations?

Senator DOMENICI. It is difficult for me to predict at this point. There seems to be a genuine desire to assume some reforms and terminations. We hear more and more that out of the whole array of programs, there ought to be some such savings. I have told this committee that my estimate now is that while there are nine major program terminations proposed, there are 80 additional minor ones which makes a total of 89. Some are only hundreds of thousands of dollars. The big nine equal

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$2.3 billion in outlays. I am getting the savings for the whole 89 for you and will submit it for the record here.

Chairman HATFIELD. Fine.

[The material follows:]

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SUMMARY TABLE, continued

	1986	1987	1988	1989	1990	1991
ELIMINATION OF INEFFECTIVE, DUPLICATIVE, OR UNNECESSARY PROGRAMS						
Interstate Commerce Commission		36	49	50	51	51
Urban Development Action Grants	11	61	148	188	273	323
Economic Development Administration and Appalachian Regional Commission	18	74	164	240	304	346
Small Business Credit Programs		1,445	1,961	1,822	1,244	948
Legal Services Corporation		266	315	328	340	353
Conservation Financial Assistance Programs	62	243	479	512	534	549
Selected Maritime Subsidies	48	131	160	168	170	170
Sea Grants and Coastal Zone Management State Grants	39	65	77	81	83	86
The New GI Bill		9	(28)	9	96	144
Subtotal, Eliminations	**178**	**2,330**	**3,325**	**3,398**	**3,095**	**2,970**

Note: This is excerpted from the document, Major Policy Initiatives, Fiscal Year 1987, prepared by the Executive Office of the President, Office of Management and Budget, to accompany the President's FY 1987 budget request.

Note: The savings shown for the entry, "Small Business Credit Programs," includes $899 million in FY 1987 associated with the President's proposed loan asset sales.

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President's Proposed Program Terminations in FY 1987 Budget Request a/

The FY 1987 budget proposes to terminate five programs in FY 1986 and 75 in FY 1987. Another nine programs would be phased-out by FY 1990 for a total of 89 terminations and phase-outs in the President's budget request.

For purposes of this exercise, a program termination falls in the year during which budget authority or obligations are at, or near, zero. The details of the proposed terminations follow.

FY 1986 Terminations (5)

(outlay savings - $ millions)

	FY 1987	FY 1988	FY 1989
Railroad Preference Share Loan Program.....	3	10	21
Maritime Cargo Preference Expansion.....	120	146	146
Housing Counseling Assistance.....	3	2	4
Justice State-Local Assistance Grants.....	46	50	53
Mariel Cuban Grants.....	5	5	5
Total Savings - FY 1986 Terminations...	$ 177	$ 213	$ 229

FY 1987 Terminations (75)

(outlay savings - $ millions)

Program	FY 1987	FY 1988	FY 1989
FEMA Supplemental Emergency Food and Shelter.....	73	76	78
Subtotal.....	73	76	78
Export-Import direct loan program.....	183	329	451
Advanced Communications Technology Satellite.....	72	76	45
Subtotal.....	255	405	496
Air carrier subsidies.....	21	25	6
State maritime schools subsidies.....	11	12	12
Amtrak.....	617	644	668
Interstate Commerce Commission (terminations and transfers).....	36	50	50
Washington Metro construction grants.....	11	57	130
Local Rail Services Assistance.....	1	14	16
U.S. Railway Association.....	3	2	2
Northeast Corridor Improvement program.....	4	10	13
Subtotal.....	704	814	897

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FY 1987 Terminations (75) (continued)

(outlay savings - $ millions)

Program	FY 1987	FY 1988	FY 1989
Institute of Museum Services Grants	6	22	22
Impact aid (type "b" students)	104	128	139
Library programs	51	94	129
Immigrant Education	15	28	30
Small Elementary/Secondary Education programs	28	54	64
Small Higher Education programs	71	88	92
State Student Incentive Grants	74	77	80
Small rehabilitation for the handicapped programs	16	18	19
College Housing Loans (new loans)	6	40	60
Child Abuse Challenge Grants	2	5	5
Child Support Interstate Grants	15	15	15
Community Services Block Grant	306	383	397
Health Planning	19	22	23
National Institute of Occupational Safety and Health Training Grants	6	9	10
Diabetes Demonstrations	5	5	6
Tuberculosis Grants	5	5	6
Mental Health Clinical Training	20	20	22
Mental Health Community Support Program	10	10	12
Indian Urban Health Centers	5	7	8
Indian Community Health Representative program	26	27	28
PHS Home Health Grants	2	2	2
PHS Organ Transplant Organizations	3	3	3
Nutrition Education and Training (NET) programs	5	5	5
Legal Services Corporation	266	315	328
Work Incentives program (WIN)	191	222	235
Subtotal	1,257	1,609	1,740
Certain soil conservation programs	243	479	512
Subtotal	243	479	512
Rural housing loans/grants	1,411	1,961	2,270
General revenue sharing	760	---	---
TVA Economic Development programs	17	21	22
Appalachian Regional Commission	26	61	88
Small Business Administration (eliminations and transfers)	546	1,191	1,111
Rental rehabilitation grants	73	77	80
Urban development action grants (UDAG)	61	148	188
Rental housing development grants	43	74	77
Public and Indian Housing Development	---	---	36
Section 8 Modern Rehabilitation	---	28	56
Section 202 housing for the elderly and handicapped	112	234	333
Congregate Services	1	2	3
Section 312 rehabilitation loan fund	81	157	159
Section 108 loan guarantee program	33	160	182
Trade Adjustment Assistance for Firms (TAA)	14	17	24
Economic Development Administration	50	104	151
Fisheries Funds	---	9	9
U.S. Fire Administration	8	8	8
Rural development program	52	205	332
Subtotal	3,288	4,457	5,129

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FY 1987 Terminations (75) (continued)

(outlay savings - $ millions)

Program	FY 1987	FY 1988	FY 1989
Recreation Historic Preservation Grants.....	23	26	28
Grants to States for Land Acquisition.....	11	27	23
Institutional Energy Conservation Program.....	14	42	47
Weatherization assistance program.....	76	90	160
State Energy Conservation Program.....	22	22	22
University Buildings - Congressional add-ons in energy.....	16	1	---
Energy Extension Service.....	9	9	9
Grants for States for Forestry Assistance.....	27	28	29
Subtotal.....	198	245	318
Landsat (eliminate future subsidies for contractors).....	54	60	41
U.S. Travel and Tourism Administration.....	5	13	13
Sea Grant and Coastal Zone Management Grant Programs.....	65	77	88
Centers for Fire Research and Building Technology.....	8	10	10
Public Telecommunications Facilities Program.....	15	22	25
Postal Service revenue foregone subsidy.....	797	801	855
Juvenile justice grants.....	47	69	71
Regional Information Sharing Systems Grants...	10	10	11
Asbestos-in-Schools Loans and Grants.....	8	42	45
Second Polar Satellite.....	34	22	18
Public debt reimbursements to Federal Reserve banks.....	2	84	84
Subtotal.....	1,045	1,210	1,261
Total Savings - FY 1987 Terminations...	$ 7,063	$ 9,295	$10,431

FY 1988 Terminations (5)

(outlays savings - $ millions)

	FY 1987	FY 1988	FY 1989
Maritime R & D.....	---	2	11
Maritime Loan Guarantee Commitments.....	---	---	---
Public Health Service (PHS) Health Profession Subsidies.....	147	229	237
Developmental Disability Special Projects.....	3	3	3
Office of Productivity Technology Innovation.....	1	4	4
Total Savings - FY 1988 Terminations...	$ 151	$ 238	$ 255

FY 1989 Termination (1)

(outlay savings - $ millions)

	FY 1987	FY 1988	FY 1989
Overseas Private Investment Corporation Insurance Programs.....	4	6	8

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FY 1990 Terminations (3)

(outlay savings - $ millions)

	FY 1987	FY 1988	FY 1989
EPA Sewage Treatment Grants	25	127	374
Federal Crop Insurance Program	317	425	523
REA Subsidies	320	521	675
Total Savings - FY 1990 Terminations	$ 662	$ 1,073	$ 1,572
TOTAL - ALL TERMINATIONS AND PHASE-OUTS	$ 8,057	$10,825	$12,495

a/ This list of program terminations proposed in the President's FY 1987 budget was compiled by the Senate Budget Committee staff from information furnished by the Office of Management and Budget.

BUDGET RESOLUTION TERMINATIONS

Senator DOMENICI. I want to make that point, because let's say it is $700 or $800 million or several billion more. We are talking about $8 billion or thereabouts for all 89. I don't see any willingness on the part of the U.S. Senate to, and therefore, I don't intend to make assumptions that are just going to be used to reduce the deficit and make the job for this committee harder. Because if the terminations aren't made, you have to make savings singularly without any authorizing committee doing their job.

So I don't believe there will be a whole lot of program terminations. There will probably be some selective ones, and yet, there won't have to be, because the committees have the flexibility to find the savings from a variety of programs.

USER FEES AND CAPITAL ASSETS

Chairman HATFIELD. Also, would that be true with user fees and the sale of capital assets?

Senator DOMENICI. I can't pass judgment on those yet. I have told the White House repeatedly that most of the user fees are second and third go-around user fees, that have been up here before the Energy Committee, the Finance Committee, and others.

So it seems to me they are going to be very difficult to assume with any credibility in a Budget Resolution.

Chairman HATFIELD. I thank the Senator.

Senator DOMENICI. You are most welcome, Mr. Chairman.

REAFFIRMATION OF COMMITTEE RULES

Chairman HATFIELD. The second general committee matter is the formal reaffirmation of our committee rules so that they may be printed in the record by March 1. The rules before you are the same ones we have had for many years, and no changes are proposed.

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Is there any objection having the rules reprinted and reaffirmed at this time?

[No response.]

Chairman HATFIELD. If not, they will then be placed in the record by the deadline of March 1.

[A copy of the rules follows:]

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RULES *

I. *Meetings*—

The Committee will meet at the call of the Chairman.

II. *Quorums*—

1. Reporting a bill. A majority of the members must be present for the reporting of a bill.

2. Other business. For the purpose of transacting business other than reporting a bill or taking testimony, one-third of the members of the Committee shall constitute a quorum.

3. Taking testimony. For the purpose of taking testimony, other than sworn testimony, by the Committee or any subcommittee, one member of the Committee or subcommittee shall constitute a quorum. For the purpose of taking sworn testimony by the Committee, three members shall constitute a quorum, and for the taking of sworn testimony by any subcommittee, one member shall constitute a quorum.

III. *Proxies*—

Except for the reporting of a bill, votes may be cast by proxy when any member so requests.

IV. *Attendance of staff members at closed sessions*—

Attendance of Staff Members at closed sessions of the Committee shall be limited to those members of the Committee Staff that have a responsibility associated with the matter being considered at such meeting. This rule may be waived by unanimous consent.

V. *Broadcasting and photographing of Committee hearing*—

The Committee or any of its subcommittees may permit the photographing and broadcast of open hearings by television and/or radio. However, if any member of a subcommittee objects to the photographing or broadcasting of an open hearing, the question shall be referred to the Full Committee for its decision.

VI. *Availability of subcommittee reports*—

When the bill and report of any subcommittee is available, they shall be furnished to each member of the Committee twenty-four hours prior to the Committee's consideration of said bill and report.

VII. *Points of order*—

Any member of the Committee who is floor manager of an appropriation bill, is hereby authorized and directed to make points of order against any amendment offered in violation of the Senate Rules on the floor of the Senate to such appropriation bill.

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*Adopted pursuant to Rule XXVI, paragraph 2, of the "Standing Rules of the Senate."

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CONGRESSIONAL BUDGET OFFICE

INTRODUCTION OF DR. PENNER

Chairman HATFIELD. The committee was called today for the primary business of hearing from Dr. Rudy Penner, the Director of the Congressional Budget Office.

Dr. Penner, if you wish to come to the table with any of your staff, you are welcome to do so at this time. Dr. Penner will release to the committee CBO's analysis of the President's budget proposal for fiscal year 1987. Dr. Penner, we welcome you. This committee looks forward to your testimony. I am sure members will have many questions regarding the CBO's base line report, as well as your analysis of the President's budget, which is based on the CBO's economic assumptions and technical estimating methods.

Let me yield, now, first, to Senator Stennis for any opening remarks he may wish to make.

Senator STENNIS. Mr. Chairman, I am ready to proceed. I don't have any remarks. Thank you.

Chairman HATFIELD. I thank the Senator, the ranking member of the committee.

Dr. Penner, your entire statement will be placed in the record, and you may proceed to summarize or highlight it as you wish at this time.

Thank you, again, for coming today.

Mr. PENNER. Thank you very much, Mr. Chairman. It is a pleasure to be here.

CBO BASELINE PROJECTIONS

Our analysis of the President's budget is made in terms of changes from the CBO baseline projections for 1987 through 1991. These projections were presented in detail last week in the first volume of our annual report to the Budget Committees. We believe they provide a useful basis for isolating the impact of proposed policy changes in spending and tax provisions from economic and other factors that affect the Federal budget. In order to prepare this analysis, we reestimate, or reprice, the President's budget using CBO's economic and technical estimating assumptions and methods.

This produces a somewhat different set of budget numbers than those presented in the administration budget documents.

CBO estimates that the Federal Government deficit under administration policies would decline from $204.7 billion in 1986 to $159.7 billion in 1987 and $40.1 billion in 1991.

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DEFICIT REDUCTIONS

The administration's program would reduce total spending and the deficit substantially compared with CBO's baseline projections. Using CBO's economic assumptions and technical estimating methods, however, the resulting deficit exceeds the 1987 target in the Balanced Budget and Emergency Deficit Control Act by $15.7 billion.

CBO has reestimated the administration's deficit figures for two main reasons: First, CBO assumes a lower rate of real economic growth, and until 1991, higher inflation adjusted interest rates than does the administration.

DEFENSE SPENDING

Second, based on the historical relations between appropriations and outlays, CBO estimates that spending for national defense will be significantly greater than that shown in the President's budget. Table 2 of my complete statement shows the CBO reestimates of the administration budget.

Those, as I said, add $16.1 billion to the projected deficit in 1987, $38.7 billion in 1988, and $41.4 billion in 1991.

MAJOR ECONOMIC ASSUMPTIONS

In 1987 and 1988, technical differences between CBO and the administration predominate. Differences in economic assumptions are more important thereafter. Table 3 of my complete statement summarizes the major economic assumptions used by CBO and the administration.

CBO's economic assumptions reduce the estimated deficit slightly in 1986 and 1987, but they add to deficit estimates by increasing amounts thereafter.

In 1991, CBO's estimate of the deficit is $24.4 billion higher than the administration's because of differing economic assumptions. CBO's economic assumptions add to both revenues and outlays as a result of the higher rates of inflation than the administration assumes. Because CBO assumes lower real growth and higher real interest rates than the administration, however, the addition to outlays is greater than the addition to revenues.

REAL GROWTH PROJECTIONS

CBO's real growth projection is based on average economic growth for 9-year periods following recession troughs. On average, since World War II, the annual growth rate of real GNP over such 9-year periods has been 3.7 percent, and the CBO projection closely approximates this result.

The administration's projection for real growth is not much higher for any 1 year and is well within the range of historical experience. By 1991, however, the level of real gross national product assumed by the administration is about 2.5 percent higher than in CBO's projection.

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NOMINAL AND REAL INTEREST RATES

Both the administration and CBO assume a decline in nominal and real interest rates over the 1987–1991 period. By 1991, both assume a Treasury bill rate between 1 and 2 percentage points above inflation, about equal to the average over the last 30 years. But the CBO assumptions envision real interest rates declining gradually to this level, while the administration assumes that inflation-adjusted rates return much more quickly to their historical averages.

Technical estimating differences between CBO and the administration add an average of $18 billion a year to the projected deficits.

Senator DOMENICI. Mr. Chairman, could I ask a clarifying question?

Chairman HATFIELD. Yes.

TECHNICAL AND ECONOMIC DIFFERENCES

Senator DOMENICI. Dr. Penner, so we understand the differences in your estimates of the President's budget and OMB's, how much of the difference is estimating the cost of programs, and how much is economics?

Mr. PENNER. Very early?

Senator DOMENICI. In 1987.

Mr. PENNER. In 1987, the economic element is virtually negligible, amounting to only $.6 billion of the differences.

The technical differences, however, are $16.7 billion in 1987. But by 1991, that changes considerably when the economic differences amount to $21.9 billion, and the technical $17 billion.

Senator DOMENICI. But your $16.7 billion number means that assuming the same programs they have underestimated the outlays per year for fiscal year 1987 by in excess of $16 billion?

Mr. PENNER. That is right, and we have about the same economics.

Senator DOMENICI. Okay. Thank you, Mr. Chairman.

DEFENSE SPENDING

Mr. PENNER. Technical estimating differences between CBO and the administration add an average of $18 billion per year to the projected deficit. Of this amount, about $14 billion per year involves national defense. Each year, the Congress appropriates new budget authority by allowing the Department of Defense to enter into spending obligations. But these obligations may not result in cash outlays for some years. CBO uses historical spending rates to estimate the amount of outlays that will occur each fiscal year from given levels of budget authority. The administration, however, believes that historical spending patterns will not apply in the future.

REVENUES AND OUTLAYS

Other technical estimating differences, in total, increase both estimated revenues and outlays. On the revenue side, the differences between the CBO and the administration are small and, for the most part, offsetting. About half derive from differences in estimates of proposed

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legislation and administrative actions. Most of the remaining differences on the outlay side result from the higher net interest costs necessitated by other technical reestimates to revenues and outlays. These additional debt service costs add $20 billion over the 1987–1991 period.

CBO and the administration also differ in their estimates of farm price supports, outer continental shelf escrow releases and the proceeds from sales of the naval petroleum reserves and Power Marketing Administrations.

Mr. Chairman, the remainder of my testimony just describes the administration budget program in some detail. I think you are familiar with that. I won't go into it now, but I would be glad to answer questions about it. The end results, including our reestimates, are shown in Table 5 on page 14 of my statement. In essentials, it shows the deficit steadily falling under the administration program from 4.9 percent of GNP in 1986 to 0.7 percent in 1991, under our assumptions. The debt-GNP ratio would rise somewhat in 1987 given their deficits, but it would fall substantially thereafter.

I would be pleased to take your questions, Mr. Chairman.

Thank you, Dr. Penner.

[The statement of Dr. Penner follows:]

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PREPARED STATEMENT OF RUDOLPH G. PENNER

DIRECTOR

CONGRESSIONAL BUDGET OFFICE

Mr. Chairman, at the request of this Committee, the Congressional Budget Office (CBO) has prepared an analysis of the President's budgetary proposals for 1987. Copies of our report have been distributed to Members, and I am pleased to have the opportunity this afternoon to summarize its findings.

Our analysis of the President's budget is made in terms of changes from the CBO baseline projections for 1987-1991. These projections were presented in detail last week in the first volume of our annual report to the Budget Committees. 1/ We believe they provide a useful basis for isolating the impact of proposed policy changes in spending and tax provisions from economic and other factors that affect the federal budget. In order to prepare this analysis, we reestimate, or reprice, the President's budget using CBO's economic and technical estimating assumptions and methods. This produces a somewhat different set of budget numbers than those presented in the Administration's budget documents.

CBO BUDGET ESTIMATES

CBO estimates that the federal government deficit under Administration policies would decline from $204.7 billion in 1986 to $159.7 billion in 1987 and $40.1 billion in 1991. The Administration's program would reduce total

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1. See Congressional Budget Office, The Economic and Budget Outlook: Fiscal Years 1987-1991 (February 1986).

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spending and the deficit substantially compared with CBO's baseline projections. Using CBO's economic assumptions and technical estimating methods, however, the resulting deficit exceeds the 1987 target in the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) by $15.7 billion (see Figure 1 and Table 1).

TABLE 1. THE BUDGET OUTLOOK UNDER ADMINISTRATION POLICIES (By fiscal year, in billions of dollars) a/

	1986	1987	1988	1989	1990	1991
Revenues						
Administration Estimate	777.1	850.4	933.2	996.1	1,058.1	1,124.0
CBO Estimate	778.7	849.9	928.1	999.9	1,074.8	1,150.2
Outlays						
Administration Estimate	979.9	994.0	1,026.8	1,063.6	1,093.8	1,122.7
CBO Estimate	983.5	1,009.7	1,060.3	1,091.4	1,141.3	1,190.2
Deficit (-) or Surplus						
Administration Estimate	-202.8	-143.6	-93.6	-67.5	-35.8	1.3
CBO Estimate	-204.7	-159.7	-132.3	-91.4	-66.6	-40.1
Deficit Targets	b/	-144.0	-108.0	-72.0	-36.0	0

SOURCE: Congressional Budget Office; Office of Management and Budget.

a. Includes Social Security revenues and outlays, which are off-budget.
b. The Balanced Budget Act set a target of $171.9 billion in fiscal year 1986, but limited the sequestration to $11.7 billion.

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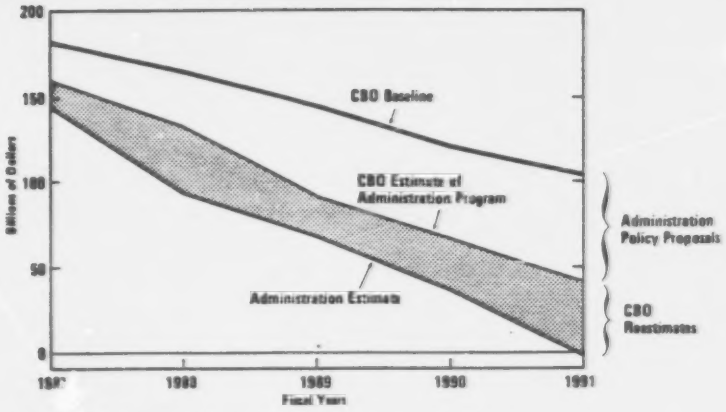
Figure 1.

Federal Deficit Projections[a]



SOURCE: Congressional Budget Office; Office of Management and Budget.

[a] Includes Social Security, which is off-budget.

CBO has reestimated the Administration's deficit figures for two main reasons. First, CBO assumes a lower rate of real economic growth and, until 1991, higher inflation-adjusted interest rates than does the Administration. (CBO and Administration economic assumptions are compared in Chapter I of our report.) Second, based on the historical relation between appropriations and outlays, CBO estimates that spending for national defense will be significantly greater than shown in the President's budget.

Table 2 shows the CBO reestimates of the Administration's budget. The CBO reestimates add $16.1 billion to the projected deficit in 1987, $38.7 billion in 1988, and $41.4 billion in 1991. In 1987 and 1988, technical

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differences between CBO and the Administration predominate. Differences in economic assumptions are more important thereafter. Table 3 summarizes the major economic assumptions used by CBO and the Administration.

TABLE 2. CBO REESTIMATES OF THE ADMINISTRATION'S BUDGETARY PROPOSALS (By fiscal year, in billions of dollars) a/

	1986	1987	1988	1989	1990	1991
Deficit						
President's Budget	202.8	143.6	93.6	67.5	35.8	-1.3 b/
CBO Reestimates						
Economic						
Revenues	2.2	-1.7	-4.2	1.2	11.1	21.9
Outlays	-1.3	-2.3	3.8	14.5	28.6	46.3
Deficit	-3.5	-0.6	8.0	13.3	17.5	24.4
Technical						
Revenues	-0.6	1.2	-0.9	2.7	5.5	4.2
Outlays	4.8	17.9	29.8	13.3	18.9	21.2
Deficit	5.4	16.7	30.7	10.6	13.3	17.0
Total Reestimates	1.9	16.1	38.7	23.9	30.8	41.4
Deficit, President's Budget as Estimated by CBO	204.7	159.7	132.3	91.4	66.6	40.1

SOURCE: Congressional Budget Office.

a. Includes Social Security revenues and outlays, which are off-budget. On-and off-budget totals are shown in Table 5.
b. Surplus.

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TABLE 3. COMPARISON OF ADMINISTRATION AND CBO ECONOMIC ASSUMPTIONS, 1986-1991 (By calendar year)

Economic Variable	Actual 1985	1986	1987	1988	1989	1990	1991
Nominal GNP (billions of current dollars)							
Administration	3,993	4,274	4,629	4,995	5,359	5,709	6,036
CBO	3,993	4,269	4,583	4,930	5,313	5,725	6,152
Real GNP (percent change, year over year)							
Administration	2.3	3.4	4.0	4.0	3.9	3.6	3.5
CBO	2.3	3.2	3.1	3.3	3.5	3.5	3.2
Consumer Price Index a/ (percent change, year over year)							
Administration	3.5	3.5	4.1	3.7	3.3	2.8	2.1
CBO	3.5	3.4	4.2	4.4	4.4	4.3	4.3
GNP Deflator (percent change, year over year)							
Administration	3.3	3.5	4.2	3.7	3.3	2.8	2.1
CBO	3.3	3.6	4.1	4.1	4.1	4.1	4.1
Three-Month Treasury Bill Rate (percent)							
Administration	7.5	7.3	6.5	5.6	4.8	4.3	4.0
CBO	7.5	6.8	6.7	6.4	6.1	5.7	5.4
Ten-Year Government Bond Rate (percent)							
Administation	10.6	8.9	8.5	7.3	5.5	4.8	4.5
CBO	10.6	9.0	8.9	8.2	7.5	6.8	6.1
Civilian Unemployment Rate (percent)							
Administration b/	7.2	6.7	6.5	6.3	6.1	5.8	5.6
CBO	7.2	6.7	6.7	6.5	6.3	6.1	6.0

SOURCE: Congressional Budget Office

a. Urban wage and clerical workers.

b. The Administration's projection is for the total labor force including armed forces residing in the United States, while CBO's is for the civilian labor force excluding armed forces. In recent years, the former has tended to be 0.1 to 0.2 percentage points below the rate for the civilian force alone.

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CBO's economic assumptions reduce the estimated deficit slightly in 1986 and 1987, but they add to the deficit estimates by increasing amounts thereafter. In 1991, CBO's estimate of the deficit is $24.4 billion higher than that of the Administration because of differing economic assumptions. CBO's economic assumptions add to both revenues and outlays as a result of higher rates of inflation than the Administration assumes. Because CBO assumes lower real growth and higher real interest rates than the Administration, however, the addition to outlays is greater than the addition to revenues.

CBO's real growth projection is based on average economic growth for nine-year periods following recession troughs. On average, since World War II, the annual growth rate of real GNP over such nine-year periods has been 3.7 percent, and the CBO projection closely approximates that result. The Administration's projection for real growth is not much higher for any one year and is well within the range of historical experience. By 1991, however, the level of real gross national product assumed by the Administration is about 2½ percent higher than in CBO's projection.

Both the Administration and CBO assume a decline in nominal and real (inflation-adjusted) interest rates over the 1987-1991 period. By 1991, both assume a Treasury bill rate between one and two percentage points above inflation--about equal to the average over the past 30 years. But the CBO assumptions envision real interest rates declining gradually to this level, while the Administration assumes that inflation-adjusted rates return much more quickly to their historical averages.

Technical estimating differences between CBO and the Administration add an average of $18 billion per year to the projected deficits. Of this amount, about $14 billion per year involves national defense. Each year the

Congress appropriates new budget authority, which allows the Department of Defense to enter into spending obligations. But these obligations may not result in cash outlays for some years. CBO uses historical spending rates to estimate the amount of outlays that will occur each fiscal year from given levels of budget authority. The Administration, however, believes that historical defense spending patterns will not apply in the future.

Other technical estimating differences, in total, increase both estimated revenues and outlays. On the revenue side, the differences between CBO and the Administration are small and, for the most part, offsetting. About half derive from differences in estimates of proposed legislation and administrative actions. Most of the remaining differences on the outlay side result from the higher net interest costs necessitated by other technical reestimates to revenues and outlays. These additional debt service costs add $20 billion over the 1987-1991 period. CBO and the Administration also differ in their estimates of farm price supports, Outer Continental Shelf escrow releases, and the proceeds from sale of the Naval Petroleum Reserves and Power Marketing Administrations.

THE ADMINISTRATION'S BUDGET PROGRAM

CBO's baseline projections provide a benchmark against which the Administration's budget program can be measured. The baseline generally assumes that defense and nondefense appropriations are held constant in real terms and that tax and entitlement laws are continued unchanged. Under these assumptions, CBO projects that the federal deficit will fall from $208.3 billion in 1986 to $181.3 billion in 1987 and $104.3 billion in 1991. The baseline projections are described in more detail in CBO's recent annual report, The Economic and Budget Outlook: Fiscal Years 1987-1991.

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As in recent years, the Administration proposes to increase defense spending above baseline levels and to reduce the deficit primarily through large cuts in domestic programs. The deficit reductions amount to $21.6 billion in 1987 and rise to $64.2 billion in 1991. Over the entire 1987-1991 period, the Administration's proposals would reduce the deficit by a total of $224.1 billion (see Table 4).

TABLE 4. THE ADMINISTRATION'S DEFICIT REDUCTION PROGRAM AS ESTIMATED BY CBO (By fiscal year, in billions of dollars) a/

Major Program	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
CBO Baseline Deficit	181.3	164.9	143.6	120.1	104.3	
Proposed Changes						
Revenues	-5.9	-7.1	-8.6	-7.2	-6.5	-35.4
Outlays						
National defense	12.7	20.2	25.1	29.6	32.9	120.6
Entitlements and other mandatory spending	-15.2	-20.3	-23.2	-26.7	-30.1	-115.5
Nondefense discretionary spending	-8.7	-16.0	-26.3	-32.7	-40.6	-124.3
Offsetting receipts	-4.1	-7.9	-14.8	-9.1	-9.2	-45.2
Net interest	-0.2	-1.7	-4.4	-7.4	-10.7	-24.4
Subtotal, outlays	-15.6	-25.6	-43.5	-46.3	-57.7	-188.7
Total Policy Changes	-21.6	-32.7	-52.1	-53.6	-64.2	-224.1
President's Budget as Estimated by CBO	159.7	132.3	91.4	66.6	40.1	
President's Budget	143.6	93.6	67.5	35.8	-1.3 b/	
CBO Reestimates	16.1	38.7	23.9	30.8	41.4	150.9

SOURCE: Congressional Budget Office; Office of Management and Budget.

a. Includes Social Security revenues and outlays, which are off-budget.
b. Surplus.

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The Administration is proposing roughly 6 percent real growth in defense appropriations in 1987 and an annual average of about 3 percent real growth over the 1987-1991 period. This policy would increase defense spending by $12.7 billion in 1987 and $120.6 billion over five years above the CBO baseline, which assumes no real growth in defense. To allow for this growth in defense and to reduce the deficit, the required cuts in nondefense spending and increase in revenues total $34.3 billion in 1987 and $344.7 billion over five years.

For the entire five-year period, the Administration's policy proposals imply:

- $35.4 billion in higher revenues. More than half of this amount--$19.4 billion--results from increased Internal Revenue Service (IRS) staff and other IRS initiatives. Extension of the cigarette tax increase of 8 cents per pack will generate $9.3 billion. Increasing the federal employee contribution to Civil Service Retirement from 7 percent to 9 percent of earnings will bring in an additional $5.6 billion.

- $115.5 billion in reductions in entitlement programs. The cuts are similar to last year's Administration proposals. The largest reductions--$45.6 billion--would be targeted on Medicare and Medicaid. General Revenue Sharing would be eliminated, thereby saving $22.5 billion. Federal employee retirement and health benefits would be cut by $17.7 billion, child nutrition and food stamps by $7.3 billion, and guaranteed student loans by $7.2 billion. No reductions are proposed in Social Security, unemployment compensation, or veterans benefits. Only small cuts would be made in means-tested, income transfer programs.

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- $124.3 billion in lower nondefense discretionary spending. Among the largest proposed reductions are transportation programs ($17.4 billion), Farmers Home Administration direct loans ($15.2 billion), civilian agency pay raises ($13.4 billion), housing assistance ($14.5 billion), health education and research ($8.8 billion), training, employment, and social services ($8.4 billion), Pell Grants for needy college students ($8.2 billion), and elementary and secondary education ($6.8 billion). Increases are proposed for international affairs, science and space, and the Internal Revenue Service.

- $45.2 billion in increased offsetting receipts. About $18 billion would come from increases in premiums charged to participants in Supplementary Medical Insurance (Part B of Medicare). Over $12 billion would result from fees charged to users of government services, such as navigation and boating assistance, customs and meat inspection, park and forest recreation, and government-sponsored enterprises. (Some proposed user fees are included in revenues and in other spending categories.) The sale of five Power Marketing Associations and the Naval Petroleum Reserves would raise, net of forgone receipts, about $11 billion.

- $24.4 billion in reduced net interest costs would result from the other policy changes.

The Administration's proposed revenue and spending changes are described in detail and analyzed in Chapters II through IV of our report.

As in last year's budget, the Administration proposes to transfer certain federal activities to state and local governments and to reduce

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federal involvement in credit markets. Of the $309 billion in proposed nondefense outlay reductions, $92 billion--or 30 percent--would come from grants to state and local governments. Many grant programs are targeted for elimination, notably General Revenue Sharing ($22.5 billion in cuts) and grants for the construction of sewage treatment plants ($2.9 billion). Others would be subject to large reductions, including education, training, and social services ($17.0 billion), Medicaid ($10.0 billion), federal-aid highways ($5.5 billion), other transportation grants ($8.5 billion), and housing assistance ($8.1 billion). Under the Administration's proposals, federal grants would represent 1.7 percent of gross national product (GNP) in 1991, as compared with 2.7 percent of GNP in 1985 and 3.4 percent of GNP as recently as 1980.

The Administration proposes to cut federal direct lending over the next five years by one-quarter, or $44.6 billion. Eliminating Farmers Home Administration and Small Business Administration direct loans would account for $28 billion of this reduction. The volume of federally guaranteed loans would also be reduced by restricting eligibility and lowering the amount of subsidy. A more detailed overview of the Administration's credit proposals is given in Appendix A.

The proposed increases in defense and the cuts in nondefense programs would change the composition of federal spending as set forth in Table 5 and Figure 2. With 3 percent real growth, defense outlays would grow only slightly less rapidly than CBO's projection of GNP. National defense spending would absorb 6.4 percent of GNP in 1987 and 6.2 percent in 1991. In the CBO baseline, which assumes no real defense growth, the 1991 defense share is only 5.7 percent of GNP.

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TABLE 5. CBO ESTIMATES OF THE ADMINISTRATION'S BUDGET PROGRAM (By fiscal year) a/

	1986	1987	1988	1989	1990	1991
In Billions of Dollars						
National Defense	269.5	296.7	316.6	336.1	356.5	376.9
Entitlements and Other Mandatory Spending	452.7	458.3	488.7	513.2	539.8	573.9
Nondefense Discretionary	172.0	165.6	166.7	162.1	163.2	163.4
Net Interest	139.8	144.7	152.7	153.2	151.7	149.6
Offsetting Receipts	-50.5	-55.6	-64.3	-73.3	-69.9	-73.6
Total Outlays	983.5	1,009.7	1,060.3	1,091.4	1,141.3	1,190.2
Revenues	778.7	849.9	928.1	999.9	1,074.8	1,150.2
Deficit	204.7	159.7	132.3	91.4	66.6	40.1
Debt Held by the Public	1,716.6	1,875.3	2,006.6	2,097.0	2,162.6	2,201.7
As a Percent of GNP						
National Defense	6.4	6.6	6.5	6.4	6.3	6.2
Entitlements and Other Mandatory Spending	10.8	10.2	10.1	9.8	9.6	9.5
Nondefense Discretionary	4.1	3.7	3.4	3.1	2.9	2.7
Net Interest	3.3	3.2	3.2	2.9	2.7	2.5
Offsetting Receipts	-1.2	-1.2	-1.3	-1.4	-1.2	-1.2
Total Outlays	23.5	22.4	21.9	20.9	20.3	19.7
Revenues	18.6	18.9	19.2	19.2	19.1	19.0
Deficit	4.9	3.5	2.7	1.8	1.2	0.7
Debt Held by the Public	41.0	41.6	41.5	40.2	38.5	36.4
Memorandum: GNP	4,192	4,504	4,838	5,214	5,619	6,047

SOURCE: Congressional Budget Office.

a. Includes Social Security revenues and outlays, which are off-budget. On-and off-budget totals are shown in Table 5.

The budget proposals would accelerate the projected decline in nondefense spending. Nondefense discretionary spending currently represents 4.1 percent of GNP, about the same share as it did 25 years ago. In the baseline it declines to 3.4 percent of GNP by 1991, and under the

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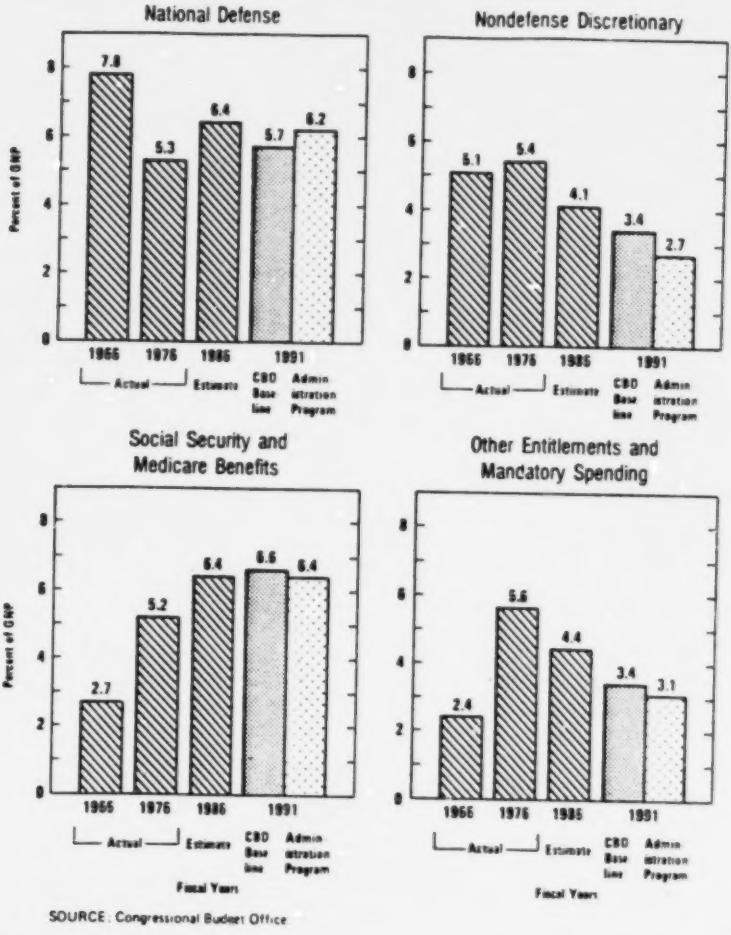
Administration program it would fall to 2.7 percent. Spending for Social Security and Medicare benefits is projected to rise slightly in the baseline relative to GNP but remains constant under Administration policy. Other entitlements and mandatory spending are projected to decline from their current level of 4.4 percent of GNP, but the drop is greater under the President's proposals.

Figure 2.
The Composition of Federal Spending



SOURCE: Congressional Budget Office

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IMPOSITION OF NEW TAXES

Chairman HATFIELD. Senator D'Amato?

Senator D'AMATO. Thank you, Mr. Chairman.

It was always good to have Mr. Penner, his expertise, and to have CBO put us more in the line of reality, as opposed to some wishful thinking and fancy footwork by ducking some expenditures and overestimating some revenues. That, unfortunately, is what I have seen us having to deal with over the years.

Recognizing this problem, it is going to be difficult reaching the $144 billion deficit-reduction target for fiscal year 1987 without the imposition of new taxes and without making cuts that would be absolutely crippling on both the domestic and the military side. I think you would have to agree that, absent any additional revenues, in order to achieve the $144 billion deficit level, spending cuts would be extraordinarily difficult, if not impossible, to make on both the domestic and military side.

Would you agree with that, Mr. Penner?

Mr. PENNER. I don't want to make a forecast. I think one can describe the kinds of cuts that you would need. If you did it all on the spending side, our estimates would imply that the dollar value of total outlays would be very close to the dollar level of 1986.

So what that implies is that all increases in caseloads under programs like Social Security and other entitlements, any COLA's that you wish to give, any adjustments for inflation or new initiatives anywhere would all have to be offset by very deep cuts in other kinds of programs.

TAX AMNESTY PROGRAM

Senator D'AMATO. That being the case, I would be interested in what we might respond with. A number of us have had unique experiences in our own home States, experiences in New York more oftentimes than needed.

One of the programs that we had, however, was a New York experience that I share with my colleagues here, a one-time only tax amnesty program. This program in New York yielded some $334 million in revenues. This one-time only tax amnesty program is coupled with increased enforcement and penalties after completion of the amnesty period. This program achieved an incredible $334 million in New York. Other States also have been rather successful, such as the State of Massachusetts and the State of Illinois.

That is why I have co-sponsored legislation that my colleague, Senator Dixon, has crafted which calls for a one-time amnesty program, which waives all criminal and civil tax penalties, as well as a 50 percent reduction in the interest owed.

CBO, I would be interested in your analysis as to the effectiveness in collecting the delinquent accounts. I think OMB has indicated they estimate $12 to $15 billion could be raised. We think our staffs have worked out that there is a lot more money out there, and if you demonstrate that you are coupling this with a purposeful collection process

at the end through increased enforcement, it might even be much more successful.

I wonder if you believe a one-time tax amnesty would be effective in collecting those delinquent taxes and in providing some substantial assistance in an effort to hit the $144 billion target?

Mr. PENNER. Well, sir, I would like to look at the plan very carefully before trying to estimate any revenues and consult with the Joint Committee on Taxation, which does most of our microtax side estimates for us.

As you suggest, various States have collected money that way. I think the real thing, as your remark suggests, is being sure that in giving amnesty, you couple it with severe penalties or else people start to think, "Well, we can cheat a little, and we'll get another amnesty in 5 years or so."

That is the biggest downside risk. But we would be pleased to look at your bill and discuss it with the Joint Committee on Taxation.

Senator D'AMATO. Mr. Chairman, let me say this. I have no pride of authorship, and I would like to say that I asked my staff to look at it. They came forward with the fact that Senator Dixon had introduced an outstanding bill that took into consideration enforcement, increased Internal Revenue Service agents, increasing the penalties thereafter, and the length of the program.

REVENUE EFFECTS OF TAX AMNESTY

But I feel, Mr. Chairman, it would be helpful to the committee—it certainly would be helpful to this Senator, and I am appreciative of Mr. Penner's response—that possibly CBO could produce a study on the revenue effects of the tax amnesty, both in the short term and in the long term, from generally increased levels of taxpayer compliance.

I happen to think if we do it the right way, there are a lot of people who live out there and feel they would like to pay, but they are afraid.

Given a one-time opportunity to clean their record, to clean their slate, given increased enforcement thereafter, and given the need of hitting budget targets, that this may be a time in our history to clearly look at our options.

TREASURY DEPARTMENT STUDY

At the Treasury, they are doing another study. They historically have been opposed to tax amnesty and have used the argument that this might encourage people to cheat in the future.

But if you take a look at compliance, unfortunately, the compliance level is going down. We now have a short gap that Treasury admits is somewhere in the area of $90 to $100 billion that won't be paid this year. The estimate by the year 2000 is roughly the loss of $400 billion annually.

So it would seem that this compliance has little to do with respect to what is presently being done, and I think maybe we could even broaden the base somewhat.

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That kind of study, Mr. Chairman, might be useful, not only to this Senator, but also to the committee. I am wondering, Mr. Penner, if you could undertake this study?

Mr. PENNER. Yes, sir. As I said, the real expertise on these issues lies with the Joint Committee on Taxation, but we would be pleased to discuss it with them and see what we could do for them.

Senator D'AMATO. Thank you very much.

Thank you, Mr. Chairman.

Chairman HATFIELD. Thank you, Senator.

The Senator from Mississippi?

Senator STENNIS. No, thank you.

Chairman HATFIELD. The Senator from New Mexico?

Senator DOMENICI. Thank you very much, Mr. Chairman.

Senator D'Amato, I predict for you, since it is getting more and more obvious that so-called tax reform won't work without new revenue and the more one looks at the budget, it won't work without one, that everybody will be for tax amnesty within a month or so.

Senator D'AMATO. Wonderful.

Senator DOMENICI. That would be my guess at this point.

OUTLAY ESTIMATING

I have a question that I would like to ask, because Senator McClure has made a very good point, Dr. Penner, about outlay estimates. Let's see if I can say this right. To the extent that an appropriations subcommittee has been assigned more or less the budget authority number that the Budget Committee assumes and that was crosswalked to the Appropriations Committee in its 302(a) allocation, along with the outlay estimates associated with that budget authority for major programs within, say, Senator McClure's Interior Subcommittee, such estimates are consistent with the overall Budget Resolution estimates, which are developed by CBO.

I don't know how we would do the crosswalk any differently. But Senator McClure has raised the point that looking at some of his programs, the outlay estimates have been significantly in error, when looking back at the actual expenditures. Significant overestimates can dramatically burden him in the year that he is doing an appropriation bill. The Budget Committee has prevailed by saying, "If you are going to change one estimate, you have got to reestimate the whole budget."

Some estimates will be higher and some will be lower, but clearly, that doesn't help Senator McClure in his problem area.

This is not, from my standpoint, something you have to do quickly, but as soon as possible, I wonder if you could go back enough years to make some historical sense, three or four perhaps, and do a function-by-function comparison for us of the estimate of outlays that CBO gave us that we, in turn, used and the actuals.

Mr. PENNER. Yes, sir; we could do some work on that, most certainly.

I think you would find from that work that generally, the estimates are pretty reasonable. They are estimates, as you know, and therefore, subject to error. We think a good estimate is within about 11 percent.

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But of course, it varies from area to area. Some areas are notably difficult to estimate, such as agriculture.

[The information follows:]

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Historical data on the accuracy of outlay estimates for individual appropriation subcommittees are not available and could be prepared only with an enormous research effort. The accuracy of the outlay estimates, however, is essentially irrelevant to scoring appropriation bills. Appropriation bills are scored using the same outlay rates assumed in preparing the budget resolution crosswalk, and the accuracy of those rates has no effect on whether or not a subcommittee exceeds its allocation.

CBO has analyzed the accuracy of the budget resolution spending estimates since 1978. The following table shows the differences between the budget resolution estimates and actual outlays and indicates how much of the differences are due to inaccurate economic, legislative, administrative, and technical assumptions. The table suggests that the differences due to inaccurate technical assumptions (including outlay rates) show no particular bias. They are positive in four years, negative in three years, and negligible in one year; for the eight-year period, the technical differences are close to zero on average. Irrespective of sign, the technical differences average 1.5 percent of outlays.

SOURCES OF DIFFERENCES BETWEEN ACTUAL OUTLAYS AND BUDGET RESOLUTION ESTIMATES, FISCAL YEARS 1978-1985 (In billions of dollars) a/

	1978	1979	1980	1981	1982	1983	1984	1985
DIFFERENCES:								
Actual Outlays	449.9	493.7	579.6	660.5	728.4	796.0	841.8	936.8
Resolution Estimate	458.3	487.5	532.0	613.6	695.4	769.8	851.2	932.0
Difference	-8.4	6.2	47.6	46.9	32.9	26.2	-9.4	4.8
SOURCES OF DIFFERENCE:								
Economic Assumptions	0.1	5.9	12.4	6.4	24.1	0.5	7.1	-5.3
Legislative Assumptions	-1.4	-1.2	12.4	17.9	1.1	15.6	1.6	19.0
Administrative Assumptions	0.7	1.5	7.2	6.6	0.1	2.0	-0.1	0.6
Technical Assumptions	-7.7	b/	15.6	16.0	7.7	8.1	-18.0	-9.5
Total	-8.4	6.2	47.6	46.9	32.9	26.2	-9.4	4.8
DIFFERENCES AS PERCENT OF ACTUAL OUTLAYS:								
Technical Differences	-1.7	c/	2.7	2.4	1.1	1.0	-2.1	-1.0
Total Differences	-1.9	1.3	8.2	7.1	4.5	3.3	-1.1	0.5

a. First resolutions, except for 1978 and 1979, which are second resolutions. Actual totals have been adjusted where necessary for comparability with the budget resolutions. The 1984 first budget resolution has been adjusted for enactment of reserve fund programs. The 1985 estimates are preliminary.
b. Less than $50 million.
c. Less than 0.05 percent.

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STUDY RESULTS

Senator DOMENICI. I think that is the most glaring example, but I believe Senator McClure makes the point that he may get saddled with three or four such areas. It may be a coincidence when you give us these comparisons that some estimates have been off consistently, but we have held to them, where, with other subcommittees, the estimates have been pretty realistic. We can't go off each time and do a reestimate even if it is done through CBO, or we will have everybody scoring their own programs.

But I don't think I can argue that we ought to remain consistent if there is a history of substantial discrepancies in some areas. We must improve our estimating techniques.

I understand that estimates are made more than a year in advance, and everybody is held to them on the same basis. Most committees would go along with this, but I would like to have more to say than, "some are up and some are down, so if you want to change them, change them every year."

You could suggest something else?

Mr. PENNER. No, as we fix them, we do keep them constant through the budget, unless there is extremely good reason to do otherwise.

CBO REESTIMATES OF PRESIDENT'S BUDGET

Senator DOMENICI. One last question, and then I will submit some in writing. The CBO reestimate of the President's budget is $16.1 billion higher under the OMB estimate.

Mr. PENNER. That is correct.

Senator DOMENICI. Could you tell us how the CBO's reestimate of the President's proposed fiscal year 1987 budget compares with past reestimates?

Mr. PENNER. In general terms, looking at the whole period through 1991, we have a much lower reestimate than last year. Last year, I remember that we were $100 billion apart by the end of that period, because of a much bigger difference in the economic assumptions.

For the years closer in, I think it is a fairly typical reestimate on the whole. This year, however, the defense reestimate is unusually large.

Senator DOMENICI. Would it be a fair assessment that for fiscal year 1987, CBO's reestimate is fairly consistent with past disparities except for defense, which is much larger than it has been in the past?

Mr. PENNER. That is correct, Senator.

Senator DOMENICI. Thank you very much.

Thank you, Mr. Chairman.

BUDGET LEVEL BREAKDOWN

Chairman HATFIELD. Dr. Penner, the summary table 3 of your CBO report shows that the projected composition of Federal spending for the administration's budget is reestimated by the CBO. It would be useful to the committee to have this same breakdown for actual budget levels over the past 25 years and CBO's fiscal year 1986–1991 base line estimates. Could you provide this kind of information for the committee?

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Mr. PENNER. Yes, sir. We can go back to 1962, I think, fairly easily. It is in the appendix of our annual report.

Chairman HATFIELD. Oh, it is in the appendix?

Mr. PENNER. Yes, sir.

Chairman HATFIELD. I thought that would be very helpful, as you have made that one projection.

5-YEAR REAL GROWTH BASE LINE FOR DEFENSE

Last year, I asked why CBO had chosen to use a 5-year real growth for defense and zero personal growth for nondefense programs in projecting your base line, and you stated at that time that the defense base line was a very special problem and that as a result of an agreement with the Budget Committee and the House and the Senate, you had chosen the Budget Resolution as your base. Also, last year in your testimony, I believe you said that "However, in case someone would like to shift gears on that issue, we also provide a base line that assumes a zero growth in defense." My question, I suppose, really is, why did you decide to shift gears in your base line report this year? Was this decision made as a result of any outside agreement?

DEFICIT TARGETING

Mr. PENNER. We decided to shift gears because it was our feeling that the Balanced Budget Act deficit targets had made the previously-passed Budget Resolution obsolete. Moreover, the Defense appropriation, and then the sequestration of that, brought budget authority in defense quite a bit below the Resolution for 1986.

So for those two reasons, we decided that the Resolution was no longer relevant as a statement of congressional policy, and we really didn't have anything much to hang our hat on. So we chose the zero real growth path. Do you have a copy of the annual report, Mr. Chairman, as opposed to the report we are issuing today?

Chairman HATFIELD. Yes, I do.

Mr. PENNER. On page 69 of that report, we outline other options for handling defense. In Table 2-4, the top panel is the assumption we actually used, the CBO baseline. The second panel assumes 3 percent real growth from the actual budget authority or program level of 1986, and the bottom panel shows what would happen if we used the Budget Resolution targets.

Chairman HATFIELD. Thank you.

CONTINUED REAL GROWTH STATISTIC

Let me also refer to this matter that you have under the Continued Real Growth Statistic. Your forecast assumes a continued economic growth for, I suppose, as long as the eye can see, and as you note in your baseline report, 9 years separate the end of 1991 from the trough of the most recent recession.

That is obviously a long stretch of continuous growth. I wanted to ask you the question, basically, doesn't that, in effect, an economic ex-

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pansion of this, lead one counter to our so-called experience in history with the normal business cycle?

Mr. PENNER. I think what we do there has been greatly misunderstood. We only pretend to be able to forecast through the end of 1987, and we do not foresee any kind of recession before that time.

The numbers from the end of 1987 on through the end of 1991 reflect a historical average. In 1991, we end up with the same growth following the trough of the last recession as you would get by taking the average growth in similar 9-year periods since World War II.

Now, as you suggest, most of those 9-year periods contained one and even two recessions. Indeed, only one period contained no recession. So those recessions are part of the average that we give you. We just don't want to pretend we know when a recession will occur in coming years. But we could have a mild recession and still get that growth. We could not have a big one, but a mild one is quite consistent with our numbers.

Chairman HATFIELD. Does the Senator from South Dakota have any questions?

Senator ABDNOR. No.

Chairman HATFIELD. Does the Senator from Wisconsin have any questions?

Senator KASTEN. Mr. Chairman, thank you.

REVISING ECONOMIC GROWTH FIGURES

Dr. Penner, in your previous estimates, you had a growth of 3.5 percent in the economy, is that right?

Mr. PENNER. In the outyears? Yes, sir.

Senator KASTEN. Are you revising those today? You are not?

Mr. PENNER. Our assumption is slightly lower than that. We have added one more year to the period. Whereas previously we used the average growth rate for 8 years following a recession, we now are using the average growth rate for 9 years following a recession. It is a little lower, but only marginally.

EFFECT OF OIL PRICE FALL

Senator KASTEN. Let me just ask the same question that I had asked the Secretary of the Treasury before the Budget Committee. When you develop these estimates that you had, I am assuming you were developing them over the last fall or early in winter. At that point, I don't think anybody could have guessed that oil prices were going to go below $20, let alone below $15 a barrel. Now, we see that they are much lower than anyone could have anticipated.

The administration's projections were being pretty routinely criticized by the press and by the economic community in December and even in January. That criticism has leveled off somewhat, largely because of the change in the price of oil. Now people are saying it might be possible to have that kind of growth and noninflationary growth and the plusses.

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What, over the last few months, have you done or have you changed to take into consideration the fact that the prices of oil, at least for 1986 and probably the beginning of 1987, are going to be less than we would have guessed they were to be if we were having this meeting in December of 1985? What changes have you made along the way that would show the positive side of the impact of the low oil prices?

Mr. PENNER. We really developed the details of our forecast in an intense way in December, though, as you suggest, we had been thinking about it a long time. At that time, we made a forecast that the refiners' acquisition cost of oil would go down to about $23 on average during 1986.

It is still not much below that, but the spot prices and futures prices indicate that it will go significantly lower. While technically we had time to adjust our forecast, as we looked at oil markets and saw the price jumping around by sometimes a dollar a day we decided that anything we might do in that regard we might come to regret just a few days later.

So we did not change the oil price in our forecast. And as you are suggesting, there is a risk that our forecast may be too pessimistic. I should point out that other things have happened in the interim on the negative side, the most disturbing being that when the fourth-quarter estimate of GNP was revised, it was revised downward more than we anticipated.

But certainly this fall in oil prices is very likely to have a good effect on the economy, offsetting that other negative news. I might point out that for 1987 there is very little difference between the administration forecast and ours. On a fourth-quarter-over-fourth-quarter basis, we have 3.6 percent and they have 4.4. That is really a very small difference.

FORECASTING

Senator KASTEN. As the months go on, I think we are going to be able to know more about this, and if the oil price, in fact, does go in the direction it looks like it may, based on the spot prices, I think we are going to pick up a plus. That is going to mean that some of the numbers that the administration was talking about, in terms of the basic underlying assumptions, are going to be closer to the numbers we are working with and some of the numbers that you have been working with, but more importantly, some of the numbers that some of the outside economic groups have been speaking about.

Mr. PENNER. Yes. The outside forecasters have moved their forecasts up quite rapidly, at least as measured by the blue chip average, indeed, while ours started higher than theirs, they have essentially caught up now and theirs are almost identical to ours.

Senator KASTEN. Thank you, Mr. Chairman.

Chairman HATFIELD. The Ranking Republican Member of the committee and the senior Senator from Alaska is recognized.

Senator STEVENS. I will not turn my back on this crowd again. [Laughter.]

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Senator STEVENS. I find myself back where I started 15 years ago.
Senator MATTINGLY. You wish.

DEFENSE BUDGET

Senator STEVENS. I am interested in the defense side, obviously, since that is my subcommittee, and I want to go back to this change in methodology. If we continued out the 1986 Resolution and put 3 percent real growth on it, we would have $323 billion in the defense line for this year.

Your new base line has a zero real growth on the post-Gramm-Rudman, and it comes out at $300 billion. We have a real change coming about. It seems to me that most of your lower deficit estimate is directly related to your lower defense number for 1987 which, I think, abandons the commitments that we made to the President with regard to 3 percent real growth.

There is room for an argument as to whether it should be on the amount that he was looking at in 1986 or the amount that we actually appropriated at the end of 1986.

The Chairman already asked you why you initiated the change, but in any event, I would like to ask you was there any congressional mandate to make this change?

Mr. PENNER. There was not. We informed the Budget Committee staffs before making it in order to get any discussion there might be on that.

Senator STEVENS. By your lowered base line, you really reduced defense $23 billion going in, didn't you?

Mr. PENNER. To be very precise, $22 billion, as compared to the Budget Resolution for 1987.

Senator STEVENS. Yes. As compared to the commitments we thought we had last year, when some of us agreed to go along with a 0-3-3 real growth concept in order to get a Budget Resolution. Now we start off with a baseline that forces us to cut $19 billion of the President's budget just to start at the CBO level; isn't that right?

Mr. PENNER. That is right, sir, but the CBO level is neither a prediction nor a recommendation. We were just grasping for some base, given that the targets had been changed so distinctly from the Resolution with regard to the macro levels. The targets are now different for deficits, and we start out way below where we were.

Senator STEVENS. I understand that, but I think CBO is part of this overall budget process and ought to be part of the commitments that are made to the Presidency in terms of working out the agreements on one budget as opposed to the next.

THREE PERCENT REAL GROWTH IN DEFENSE

Those of us handling the defense accounts presumed in handling the bill last year that we would have 3 percent real growth in fiscal year 1987. There was a commitment to 3 percent real growth and we assumed that we could pay for some of the bills that were coming due with that real growth.

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Now there are a lot of people that are hanging their hat on your projections, and your projections mean that there is about $20 billion less in the request level.

Mr. PENNER. It is not a request, sir. It is nothing like that. I mean, there is absolutely nothing to prevent going back to the $323 billion defense budget authority.

Senator STEVENS. Well, it would be pretty difficult without changing your overall projections, though. I think that you should have taken into account the commitment that Congress made to the President last year on a 3 percent real growth level. Even with your assumptions, you didn't put any real growth in it, did you?

Mr. PENNER. In the $301 billion?

Senator STEVENS. Yes.

Mr. PENNER. No, that is zero real growth in budget authority from the program level in 1986.

UNDERSTATEMENT OF DEFENSE OUTLAYS

Senator STEVENS. I understand there is a real dispute now between OMB and CBO. You say the defense outlays of the budget are understated by $14.5 billion.

Mr. PENNER. That is correct.

Senator STEVENS. In order to protect our subcommittee, we took your outlay figures in the projections the committee just made.

OMB's projections are tied to the 1987 projection that was included in last year's 1986 budget resolution. We thought we were dealing with a 3-year rolling budget. Now we pick up a new projection, and we find that not only are we $20 billion less in terms of B.A., but $14.5 billion higher in outlays than we thought we were in December of 1986.

I am sure you understand that really complicates our life. I don't think it is fair to make that kind of an adjustment without conferring with the people who have to deal with these numbers. I think you should have notified the committees involved that you intended to change methodology, and we should have been involved in that discussion. I try to be as supportive as I can of CBO, and I have great feeling for the job that you do. I expressed that to you personally.

But this gets us in the middle of a real crunch now that I don't think anyone on the committee understands yet. We have to comply with both the outlays as well as the B.A. levels under the Gramm-Rudman. It was the outlays that really took the defense numbers down so heavily in these projections for sequestering on March 1.

If you are right, that the budget projection is $14.5 billion understated and your estimate of the defense level for your base line is correct, then I believe we are dealing with a cut of somewhere around $60 billion before we are through to equate the $14.5 billion difference in outlays, plus the $19 billion we have already lost in terms of budget authority.

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Mr. PENNER. Let me be clear on the $14.5 billion. When the Congress passed its Budget Resolution, by our interpretation, it simply set targets for budget authority and outlays. There was not yet a program in existence that matched those targets. In theory, the targets could have been attained, or made consistent if you will, by a program that was heavier on slow-spending components and lighter on fast-spending components.

The President now has presented us with a specific program—that is to say, a specific amount of military personnel, of procurement, and so on. This is the program we have estimated. With regard to that specific program, we are saying that our estimate of the outlays is $14.5 billion higher than his.

Senator STEVENS. I understand. But the Gramm-Rudman projections for the deficit levels, the $144 billion, were made on the basis of your old calculations, weren't they, not on this new baseline estimate?

Mr. PENNER. I am not sure what you mean, sir. Do you mean the choice of the $144 target?

Senator STEVENS. Right. The $144 target presumed your old projection methodology. You have changed now in 1986.

But we have to comply with the budget, the deficit target that is in the law based on your new methodology, as I understand it. You are one of the ones that is going to help make up this concept before we are through this year in Gramm-Rudman. Somehow, I have got the figure; I not only lost $20 billion from the subcommittee's jurisdiction, but I have a $14.5 billion higher outlay estimate that I have to deal with.

Mr. PENNER. I don't think the $144 billion was chosen that way. It was based on an even number of steps of $36 billion that would get you down to a balanced budget in 1991.

Senator STEVENS. I may not have articulated that right. The budget deficits that were projected in that year when we were talking about Gramm-Rudman were under your own methodology, and they selected the $144 as being the first target and then came down to $36 billion a year.

But that target level came out of the discussions, as I understood it, in the Budget Committee with your people, based on your old methodology.

Mr. PENNER. I really don't think so, sir, and during the negotiations over Gramm-Rudman, we talked a lot about what the baseline should look like for Gramm-Rudman. At that time, we got a baseline that started with the prior year's money appropriation level. At that time we estimated, to help the Congress draft Gramm-Rudman, a deficit of something like $190 billion, $200 billion, something on that order of magnitude, for 1986.

Senator STEVENS. My time is up. Let me just put it this way. The bottom line is that the President's deficit projection under his budget is $143 billion. Your reestimate of the President's budget shows a deficit

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of $159 billion. Isn't that the $14.5 billion we are talking about in terms of outlays?

Mr. PENNER. Yes, sir.

Senator STEVENS. So the difference really is the way you have treated the Defense Subcommittee already, isn't that correct? We have to find that money in terms of the defense account to come down to about where the rest of these people start off with.

Mr. PENNER. If they choose to start off there. I should also point out that the Congress has never started with our baseline in defense as long as I have been at CBO.

Senator STEVENS. It won't surprise you for me to let you know that they are not going to start there, as far as I know.

[Laughter.]

Mr. PENNER. In my few years here, they have always chosen a different baseline. That is why, in our annual report, on page 69, we give you different alternatives.

Sometimes they have started with the President's request, which is not an alternative shown in our report. I guess we knew what the President would request, but we did not include it here.

Last year, of course, the baseline was the so-called Rose Garden Agreement, which was above the President's request.

Senator STEVENS. We have made an agreement every year since I have been Chairman with the President, and we have yet to keep it.

Thank you very much, Mr. Chairman.

Chairman HATFIELD. I thank the Senator from Alaska.

The Senator from Tennessee? The Senator from Georgia?

Senator MATTINGLY. Thank you, Mr. Chairman.

CRUDE OIL PRICES

I have just a couple of brief questions. One is to follow up on Senator Kasten's line of thought. In your economic outlook report, you said that since November 1, 1985, the crude oil prices have gone down $20 a barrel to below $17 a barrel. Have you been able to assess what savings would accrue to the Department of Defense as a result of those savings for fiscal year 1987?

Mr. PENNER. Not in any accurate detail, Senator. If you want a very crude notion of that, speaking very, very roughly, I think that the Department of Defense uses the equivalent of about 200 million barrels of oil per year, so a $5 change in price would add up to about $1 billion.

In terms of the forecast we made, which, as I said, had the refiners' acquisition costs coming down to $23, we estimated the savings at a little over $1 billion.

Senator MATTINGLY. For fiscal year 1987?

Mr. PENNER. For fiscal year 1987.

Senator Mattingly. Do they buy it at the crude price?

Mr. PENNER. No, they don't.

Senator MATTINGLY. I think unleaded costs range around $34 to $38 a barrel.

Mr. PENNER. That is absolutely right. I was talking about equivalents.

Senator MATTINGLY. Was the fall in oil costs factored in when you made your first assumptions?

Mr. PENNER. As I said before, we did forecast some considerable fall in oil prices; at the time it seemed quite a large fall under conditions then. But the fall has far exceeded what we factored in.

Senator MATTINGLY. All right. So you think we would have $1 billion in additional savings?

Mr. PENNER. I would want to look at that very carefully, and it is very crude. I should emphasize that. It doesn't take account of any indirect effects. The effects would permeate the economy if, in fact, the price stays down where it is today.

MILITARY CONSTRUCTION OUTLAYS

Senator MATTINGLY. One other question. As Chairman of the Military Construction Subcommittee, I was struck by the dramatic difference in the estimates of CBO and OMB in regard to projected 1987 outlays. The OMB estimate was $7.08 billion and yours was $8.248, a $1.2 billion difference

I wonder if you would look at that and talk to OMB.

Mr. PENNER. There was an upward reestimate of $1.2 billion?

Senator MATTINGLY. No. CBO's estimate for fiscal year 1987 Milcon outlays is $8.248 billion, and OMB's is $7.08. That is quite a difference.

Mr. PENNER. I had better get back to you on that, Senator.

Senator MATTINGLY. A difference of that size would be critical in determining the size of any future Gramm-Rudman cuts.

Mr. PENNER. Let me get back to you on that.

[The information follows:]

MILITARY CONSTRUCTION AND FAMILY HOUSING OUTLAYS

The CBO estimate of 1987 outlays for military construction and family housing programs under the President's budgetary proposals is $8.2 billion, compared to the Administration's estimate of $7.1 billion. Chapter III of the CBO analysis of the President's budgetary proposals for fiscal year 1987 provides a general discussion of the CBO reestimates of defense outlays. Essentially, CBO is continuing to use historical relationships between budget authority and outlays whereas the Administration is not.

For military construction and family housing programs, which fall under the jurisdiction of the Military Construction Subcommittee, CBO also estimates that 1986 outlays will be $640 million higher than the levels shown in the President's budget. Actual 1986 outlays through January 1986 show military construction 23 percent above the comparable four-month period for fiscal year 1985, and family housing 15 percent higher. If these spending rates were to continue for the rest of fiscal year 1986, outlays for these programs would be $1.3 billion higher than the Administration's estimate and over $600 million higher than the CBO estimate. A somewhat more sophisticated time-series projection of 1987 outlays for these programs indicates outlays slightly above the CBO estimate and about $750 million above the Administration's estimate.

Senator MATTINGLY. Thank you very much, Mr. Chairman.

Chairman HATFIELD. I thank the Senator.

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The Senator from New Jersey?

Senator LAUTENBERG. Thank you, Mr. Chairman.

TAX AMNESTY

Dr. Penner, when you were before the Budget Committee February 18, you discussed tax amnesty as a means of raising some additional revenue. At that time, in fact, I requested that CBO do an estimate of the revenue effect of a particular proposal that I submitted. Yesterday, I introduced that legislation with the co-sponsorship of two of my colleagues, Senators from the Budget Committee, Senators Boschwitz and Moynihan.

There is, certainly judging by press reports, growing interest in the concept of tax amnesty on the Finance Committee. Do you have any ideas of when the estimate of the requests that I put to you will be ready? The response is what I am after.

Mr. PENNER. We just got the language, I think, yesterday. We are looking at it. A week or two, Senator.

Senator LAUTENBERG. A week or two? You just got the request yesterday? I am told that it was sent to you February 17. Did something get lost? Is that something you will look into?

Mr. PENNER. Yes.

Senator LAUTENBERG. We will look into it. That is an awful long time. We are going to have a Budget Committee markup next week, and I would really like to have that information before then.

Mr. PENNER. We will do our best to get it done as quickly as possible.

Senator LAUTENBERG. Just push a button or two.

[Laughter.]

Senator LAUTENBERG. But if you would, Dr. Penner, I would appreciate it.

[The information follows:]

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CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

Rudolph G. Penner
Director

March 21, 1986

Honorable Frank R. Lautenberg
United States Senate
Washington, D.C. 20510

Dear Senator:

An estimate of the revenue and outlay effects of S. 2100, the Federal Tax Amnesty and Improved Tax Compliance Act of 1986, is enclosed. This cost estimate has been prepared in response to your request of me during the Senate Committee on Appropriations hearing on February 26.

S. 2100 would allow amnesty from civil and criminal penalties imposed by the Internal Revenue Code of 1954 for a six-month period ending September 30, 1987. In addition, it would authorize funds for 2,500 additional members of the IRS examinations staff each year from 1987 through 1989--for a total increase of 7,500 positions. It would also increase existing taxpayer penalties and impose new ones.

The Joint Committee on Taxation concurs with this estimate. If you have further questions, please contact me or have a member of your staff contact Rosemary Marcuss at 226-2687.

With best wishes,

Sincerely,

Rudolph G. Penner

Enclosure

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ESTIMATED BUDGETARY EFFECTS OF S. 2100
(By fiscal year, in billions of dollars)

	1987	1988	1989	1990	1991
Establish Federal Tax Amnesty					
Expenses for Publicity					
Estimated Authorization Level[a]	*	---	---	---	---
Estimated Outlays	*	*	---	---	---
Estimated Revenues[b]	1.0	*	*	*	*
Increase IRS Examination Staff					
Estimated Authorization Level[c]	0.1	0.2	0.3	0.3	0.3
Estimated Outlays[c]	0.1	0.2	0.3	0.3	0.3
Estimated Revenues[c,d]	0.6	1.5	2.6	2.8	2.9
Increase and Impose New Penalties					
Estimated Revenues	0.3	0.3	0.3	0.3	0.3
Total Budgetary Effects					
Total Outlays	0.1	0.2	0.3	0.3	0.3
Total Revenues	1.9	1.9	2.9	3.1	3.3
Net Deficit Effect	-1.8	-1.7	-2.6	-2.8	-2.9

NOTE: Totals may not add due to rounding.

* Less than $50 million.

a. State experience indicates that publicity would be necessary for a successful amnesty. Based on the publicity experience of several states' tax amnesty programs, CBO estimates that advertising costs for a federal tax amnesty program would be at least $5 million, but could be several times greater.

b. Amnesty is likely to have some positive as well as some negative effects on collections in subsequent years. CBO estimates that the net revenue effect in these years will be positive and less than $50 million.

c. This estimate assumes that the necessary amounts will be appropriated. Estimates of outlays are based on historical spending patterns.

d. The appropriation of increased funds for IRS enforcement could generate considerable additional revenues in increased collections. The President's fiscal year 1987 budget proposes to increase IRS enforcement funding for 2,500 additional members of the IRS examinations staff each year from 1987 through 1989. This proposal would increase funding above baseline levels by $1.3 billion from 1986 through 1991 (including a 1986 supplemental appropriation). This proposal would increase collections by $10.4 billion over the 1987-1991 period. Such revenue increases cannot be included in scorekeeping or in baseline revenues until legislation appropriating such funds has been signed into law and necessary administrative actions initiated.

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BASELINE PROJECTIONS

Your baseline projections forecast the deficit from $181 billion in fiscal year 1987 to $120.1 by 1990. But your baseline involves some special policy assumptions. You assume no real growth in defense—there are those here who would argue with you—and nondefense discretionary programs from fiscal year 1986 sequestered levels.

You also assume current law and termination of expiring provisions for the mandatory programs. You further assume that net interest will fall as a result of achieving the Gramm-Rudman targets.

Some have concluded that your baseline projections means that achieving the Gramm-Rudman-Hollings targets will be much easier than originally supposed. But given the peculiar nature of your baseline this year, is that true?

Mr. PENNER. It is hard to know what was earlier supposed, but I think it is very important to point out that the base numbers we use are what I call barebones base. There is absolutely no room for new initiatives in them, as you suggest, either in defense or nondefense.

There are a set of spending numbers that have already been cut once by the $11.7 billion sequestration of 1986. We felt we had to start with a postsequestration amount there. That cut was not explicitly voted on and distributed by the Congress. Though it doesn't go right to your question, I think it is very important also to note that the deficit stream you have referred to leaves no room for any kind of accidents at all, such as economic accidents, where the economy might do less well than expected, or accidents such as international crises that might put us on the old defense path I might add that I have been pretty surprised by the deficit projection. I think it shows how far we have come, Senator.

I remember back in 1981 giving speeches in which I suggested the deficit might go above $100 billion, and people were horrified by that. Now we have a projection that shows the deficit coming down to $100 billion, but not by 1991, and people are calling it good news. So there has really been a change in standards in a very few years.

Senator LAUTENBERG. So much for your forecasting.

That is true, but we are where we are, and anything that changes the basic assumptions could throw this into a different equation. Any increase above zero real growth for defense, for example, is going to have to be made up for in cuts from other programs or else additional revenues are going to have to be raised to meet that $181 billion, let alone the $144 billion mandated. You would agree with that?

Mr. PENNER. I would certainly agree.

RESPONSIBLE, FIXED, SCHEDULING PROGRESS

Senator LAUTENBERG. Last Wednesday, Mr. Miller of OMB told the committee, and I quote, "Gramm-Rudman-Hollings has committed both the President and the Congress to responsible, fixed, schedule of progress. By submitting this budget, the President abides by the law and keeps his part of the bargain."

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Does your analysis of the President's budget support that claim?

Mr. PENNER. Well, sir, the law is totally dependent on forecasting and estimating, and by the President's estimates and forecasts, he has met the law. By our estimates, there is the $16 billion gap.

Senator LAUTENBERG. Your estimates are $16 billion difference in 1987, $38 billion in 1988—I am rounding off here, somewhat a billion here or there—$23.9 billion, to be more precise, in 1989, and so forth. You know what the numbers are.

Mr. PENNER. To be fair to Director Miller, I believe he was referring to 1987 specifically.

PROJECTING INTEREST RATES

Senator LAUTENBERG. OK. But there we have the $16 billion gap and growing substantially in the outyears.

If, as your analysis suggests, the President's budget fails to achieve the deficit targets of Gramm-Rudman-Hollings, does that cast some doubts on the interest numbers, the net interest numbers in your baseline projection?

Mr. PENNER. It could. We are talking about small differences, now, in an area where it is very hard to make forecasts, as you know. But there could be some change, yes, sir.

Senator LAUTENBERG. Could be some change. Again, the slightest change could make fairly big differences, as we go on. If you assume lower interest rates, we have to assume a difference in the deficit numbers, as well. Would it make more sense to project interest rates on current policy for the purpose of your baseline?

Mr. PENNER. We truly think the deficit targets in Gramm-Rudman are current policies. That is the whole philosophy behind the way we do it.

Senator LAUTENBERG. In the 1986 report on the implementation of the Federal Managers Financial Integrity Act of 1982, GAO states that over one-half of the government's accounting systems—and this is something I reviewed before with other witnesses—126 out of 447 failed to meet the Comptroller General's standards. Are you familiar with this?

Mr. PENNER. I am not, Senator.

DEFICIENCIES IN EXECUTIVE BRANCH INTERNAL CONTROL MECHANISM

Senator LAUTENBERG. What happens is the report goes on to identify a number of deficiencies in the Executive Branch internal control mechanism, and GAO maintains that these weaknesses would result in losses totalling in the billions of dollars.

I wonder if CBO can take a look at that and estimate some of the savings that might be achieved if the reforms identified in the FIA process were implemented. Has anybody on your staff looked at this particular item?

Mr. PENNER. I think I am generally aware of some of the work that the Comptroller General has been doing in this area. Frankly, we don't really have the expertise to get down to the really micro-micro level, and we rely on GAO to handle that sort of thing.

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Senator LAUTENBERG. It is suggested in department after department that we are missing the opportunity to control our functions better, control the expenditures better. Among the things that I would like to see happen is to see if we couldn't keep a tighter rein on these things and pick up some funds there that otherwise escape us.

Senator LAUTENBERG. Thanks, Mr. Penner.

Thanks, Mr. Chairman.

Chairman HATFIELD. Does the Senator wish to have a little more time here to finish up?

Senator LAUTENBERG. No, thanks, Mr. Chairman.

Chairman HATFIELD. I thank the Senator.

Dr. Penner, you have been a very responsive witness today, and we appreciate the assistance that you have given this committee by your testimony. We will continue to work closely with you and your office as we begin the appropriations process.

PREPARED STATEMENT

I have a statement by Senator Weicker to be inserted in the record at this point or at the appropriate place.

[The prepared statement of Senator Weicker follows:]

PREPARED STATEMENT OF HON. LOWELL P. WEICKER, JR.

U.S. SENATOR FROM CONNECTICUT

Mr. Chairman, I appreciate the opportunity to participate in today's hearing with the Director of the Congressional Budget Office (CBO).

Since so much of our appropriations process has become dependent on CBO's projected budget outlays, I welcome Mr. Penner's comments not only on the President's budget proposals but on CBO's economic projections and calculations as well.

For the record, Mr. Chairman, I do want to state that, while I realize the Gramm-Rudman-Hollings legislation mandates a 4.3 percent cut for fiscal year 1986 in most of the programs in my subcommittee's jurisdiction, I do not believe we should automatically assume a cut of at least that much in each program for fiscal year 1987. Gramm-Rudman-Hollings requires that a specific deficit target be met; for fiscal year 1987 that target is $144 billion. I do not believe, however, the target should be met through cuts in programs which are essential to the health and welfare of the American public and can, in fact, save the American public billions of dollars in the future.

SUBMITTED QUESTIONS

At this time, I would suggest that we do have some questions that we will present to you, Dr. Penner, on behalf of members such as Senator Chiles and others, and we would ask that if you could respond to them for the record by March 7. There aren't that many questions. It would be very helpful to this committee's schedule.

[The following questions were not asked at the hearing, but were submitted to CBO for response subsequent to the hearing:]

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Questions Submitted by Senator Hatfield

Continued Real Growth

Question: Your forecast assumes continued economic growth for as long as the eye can see. As you note in your baseline report, nine years separate the end of 1991 from the trough of the most recent recession. That is a long stretch of continuous growth.

o Doesn't an economic expansion of this length run counter to our experience with the "normal" business cycle?

Answer: The Congressional Budget Office does not anticipate a recession in the next two years. Though the baseline projection from 1988 to 1991 does not specify a recession for any particular year, the cumulative growth of GNP from the recession trough in the fourth quarter of 1982 to the end of 1991 (36 quarters) is consistent with a recession occurring at some point in the projection period.

The CBO projects the level of GNP in the fourth quarter of 1991 to be 39 percent greater than in the most recent trough (1982:4). Real GNP 36 quarters away from previous post-war recession troughs averaged a level approximately 39 percent greater than the level of the trough, even though the 36-quarter-long periods were punctuated by recessions. For example, in the 36th quarter after the 1970 recession trough (that is in early 1980), real GNP was 33 percent higher than

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the level of the trough, even though the economy suffered a severe recession during the intervening years.

If the economy approximately follows this historical average growth pattern, the CBO projection will be achieved. Of course, there are likely to be some years of slow or negative growth and some years of very rapid growth, rather than the relatively steady 3 percent growth used in the CBO baseline.

CBO High Growth Scenario

Question: On the basis of the CBO "high growth" alternative baseline Congress could fund all existing programs, even hold them harmless for inflation, and end fiscal year 1991 with a $70 billion surplus.

Under the "high growth" scenario we could, presumably, fund defense and non-defense programs at higher levels, have a modest tax increase, retire some of the public debt and still have a balanced budget in 1991!

o This is just too good to be true. What assumptions in your forecast account for such a rosy possibility?

Answer: The high growth path assumes real growth similar to that of the strongest nine year expansion of the postwar period, and also a substantial increase in the rate of inflation. Although the economy has sustained such rapid growth in the past, CBO

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does not anticipate a repetition of that performance, and does not propose that the high growth path alone should be used as the basis for budget calculations. Economic projections are subject to uncertainty and the high and low growth paths provide information about that uncertainty by indicating the range of possible outcomes that would be consistent with the economy's historical behavior.

Deferrals

Question: o Regarding the President's February 5 request for nearly $23 billion in deferrals from FY 86 appropriations, has the CBO reviewed those deferral requests to assure that they are in technical compliance with the Budget Impoundment and Control Act? Specifically, it has come to our attention that a number of the deferral requests are proposed to be transferred to other activities within the President's FY 87 budget request and are therefore not deferrals at all but transfers. Is Congress required to act on those deferrals which propose to put the funds to use in activities other than its appropriated use?

Answer: Review of deferrals by the Congressional Budget Office does not include a determination to insure that they are in technical compliance with the Impoundment Control Act of 1974. Such determination is made by the Comptroller General who must review and report on deferrals under this Act.

In some cases the President has asked for deferral of authority available in fiscal year 1986 and requested repro-

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gramming or transfer of the unobligated funds in fiscal year 1987. In such instances where Congressional action is needed to effect the proposed transfer, the President's deferral message has indicated where specific appropriation language is necessary.

CBO Treatment of Deferrals

Question: I understand that the CBO baseline report incorporates a number of deferrals that are of a policy rather than of a normal programmatic nature.

o Why have you chosen to construct a baseline that incorporates Presidential policy rather than Congressional policy?

Answer: CBO incorporates deferrals in its baseline projections because they take effect automatically, unless overturned by the Congress. As CBO was preparing its baseline projections, none of the President's $23 billion in announced deferrals had been overturned by the Congress. Although subsequent events might restore some of the deferred funds, these deferrals were fully effective at the time CBO prepared its estimates.

CBO's baseline projections would not be significantly different if we were to change our treatment of deferrals. Of the $23 billion in deferrals announced so far by the President, the overwhelming majority are part-year deferrals or represent routine deferrals in slow-spending programs (such as

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military construction and Federal Aviation Administration procurement). Only about $2 billion of the deferrals actually reduce outlays in the baseline. Had we not included them, baseline outlays would be about $0.2 billion higher in 1986 and $0.4 billion higher in 1987.

Sample FY 1987 Sequester Order:
Any More WMATA's

Question: In the joint CBO/OMB FY 1986 sequestration report to the Comptroller General, both you and OMB differed on the conceptual treatment of the application of a sequester of interest payments to WMATA (Washington Metropolitan Area Transit Authority). GAO resolved the issue in a satisfactory manner.

You both felt that application of a sequester order to that account could lead to a default on the nearly one billion dollars in WMATA borrowing.

o Under your sample FY 1987 sequester would any programs be placed in similar jeopardy?

Answer: Not that we are aware of at this time.

Sample FY 1987 Sequester Order

Question: In your chapter on a sample FY 1987 sequester order in your baseline report, "Automatic Spending Reductions Under

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The Balanced Budget Act," Chapter III of The Economic And Budget Outlook: Fiscal Years 1987-1991, you estimate that defense programs would be cut by 6.2 percent and discretionary non-defense programs by 8.4 percent.

I believe some readers have misinterpreted the implications of your sample sequester of "only" $22.6 billion in outlays. As you state in your report that is measured from your "sequester base" not your "baseline."

In contrast to your baseline the "sequester base," for programs in the jurisdiction of this Committee, freezes virtually all BA at FY 1986 levels for both non-defense discretionary and defense programs and also excludes all funding of the general revenue sharing program.

For programs in the jurisdiction of this Committee, the CBO "sequester base" is lower than your baseline by $22.6 billion in BA and $13.5 billion in outlays.

Answer: You are correct, Mr. Chairman, that the budget base that we used for our illustrative 1987 sequestration is lower than our baseline projections for 1987. The sequestration base does not include any adjustments for inflation or other factors that are taken into account for our baseline, such as the use of unobligated balances to fund part of the 1986 military personnel expenses in the Defense Department. It also excludes any new funding for general revenue sharing, as you observed. About the only adjustment that is made to 1986

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appropriations for discretionary programs is to include the President's pay proposals for 1987, as specified by the Balanced Budget Act.

As a result, the sequestration budget base for 1987 is lower than our baseline projections by $23 billion in budget authority and $14 billion in outlays. Almost all of these lower amounts are in programs affected by appropriatons of your Committee.

Sample FY 1987 Sequester Order

(Continued)

Question: 1) In budget authority terms, by subcommittee, what are the levels: a) Of non-defense discretionary spending; and b) of defense spending, in your sample FY 1987 sequester?

2) In budget authority terms, how much would non-defense spending decline compared to FY 1986?

3) In budget authority terms, how much would defense spending decline compared to FY 1986?

4) Have you discovered any agencies that would be unable to carry out their missions at the funding levels assumed in your sample sequester order?

Answer: The following table shows budget authority levels by subcommittee for the 1986 postsequester base used for the CBO baseline projections, the 1987 CBO baseline, the 1987

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budget base used for our illustrative 1987 sequestration, and the 1987 level after deducting the illustrative sequestration. These levels are consistent with those published in the CBO annual report to the Budget Committees, The Economic and Budget Outlook: Fiscal Years 1987-1991 (February 1986). The table shows that budget authority for defense programs after the illustrative 1987 sequestration would be $15 billion lower than for 1986, and $1 billion lower for nondefense programs. The reductions in nondefense discretionary programs would be almost completely offset by increases for appropriated entitlements or other mandatory spending programs that are exempt or partially protected from sequestration. We are not aware of any agencies that would be unable to carry out their missions at the funding levels assumed in our illustrative sequester.

Budget Authority Levels by Appropriation Subcommittee
(By fiscal year, in billions of dollars)

Subcommittee	1986 Base	1987 CBO Baseline	1987 Sequester Base	1987 Illustrative Sequester
Agriculture	28.2	30.9	30.8	30.3
Commerce, State, Judiciary	11.5	12.4	11.6	10.7
Defense	271.2	285.6	274.4	257.4
District of Columbia	0.5	0.6	0.5	0.5
Energy and Water	14.8	15.2	14.6	13.4
Foreign Operations	14.4	15.5	14.4	13.2
HUD-Independent	59.3	61.1	55.4	52.6
Interior	1.3	8.1	8.0	7.2
Labor, HHS	106.3	112.7	111.2	107.9
Legislative Branch	1.6	1.6	1.6	1.5
Military Construction	8.1	8.4	8.1	7.6
Transportation	10.0	10.5	10.1	9.2
Treasury-Postal Service	13.2	13.0	12.9	12.2
Allowances	--	1.1	0.7	0.7
Total	540.4	576.6	554.0	524.3
Memorandum:				
National defense	286.6	301.4	289.7	271.8
Nondefense	253.8	275.2	264.3	252.5

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Export-Import Bank

Question: There is a major difference in the way you are scoring the Administration's Export-Import Bank interest subsidy proposal and the way it was scored by OMB. OMB, correctly, I believe, views the proposal as a guarantee program, and, therefore, it does not result in new budget authority, while you are viewing it as very similar to the direct loan program.

Would you please explain your differences with OMB, especially in view of the fact that you agreed with OMB last year when a very similar proposal was proposed by the Administration.

Answer: The Administration's proposes to restructure the Export-Import Bank subsidized loan program to finance the loans with agency guaranteed borrowing rather than by Treasury borrowing, without changing the nature or terms of the loans. Eximbank would continue to select the borrowers, provide an interest subsidy equal to the subsidy provided for a direct loan through the current program, and service the loan after arranging financing through a private lender. Lenders would be selected competitively, but would be guaranteed full payment of interest and principal. Since borrowers would be subsidized as heavily as they are now, there would be no reduction in the cost to the government or in the federal intervention in the capital markets. The Eximbank guaranteed financing is equivalent to an agency debt transaction. Accordingly, the Congressional Budget Office continues to record the subsidized loan transactions as direct loans,

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requiring budget authority and outlays by the agency. In contract, the Administration's budget records them as guaranteed loans.

Last year, the details of the Administration's interest subsidy proposal were not available at the time we did our analysis of the President's 1986 budget. Therefore, we had to assume that the Administration was proposing a loan guarantee program that was consistent with the guidelines for credit programs specified in OMB Circular A-70.

One goal of this Circular was to prevent agencies from obtaining illusory budget savings by substituting 100 percent guarantees for equivalent direct loans. Circular A-70 contains a general prohibition of new 100 percent guarantees and suggests that private lenders be required to assume at least 20 percent of the loss from default. In those cases where 100 percent guarantees must be used, A-70 indicates that these instruments ordinarily should be financed through the Federal Financing Bank; that is, they should be converted explicitly into direct loans. The source of scoring disagreement between CBO and OMB over the Eximbank proposal is the inconsistency of this plan with the principles embodied in the Administration's credit policies.

Both CBO and OMB agree that the true cost to government of federal credit activity is its subsidy cost. Without great difficulty, the current proposal could be modified to permit the budget to reflect accurately its interest subsidy costs. This could be achieved by having Eximbank pay the

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interest subsidy in one, up-front sum using appropriated funds. Further, the plan could be made fully compatible with the policies outlined in the A-70 by reducing the guarantee to 80 percent.

Baseline Projections of Defense and Non-defense Spending

Question: Last year I asked why CBO had chosen to use a 5 percent real growth for defense and zero percent real growth for non-defense programs in projecting your baseline. You stated that the defense "baseline" was a very special problem and that as a result of an agreement with the Budget Committees in the House and Senate you had chosen the budget resolution as your base.

In your testimony last year you said, with great prescience: "However, in case someone would like to shift gears on that issue, we also provide a baseline that assumes a zero real growth in defense."

o Why did you decide to "shift gears" in your baseline report this year?

o Was this decision made as a result of any outside agreement?

Answer: Defining the defense baseline always raises a number of difficult conceptual issues, especially for weapons systems.

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These pass through various stages of research, development and testing, through procurement in a series of "buys," and finally to needed operations and maintenance costs. The upshot is that any single year's defense appropriation is part of a multiyear plan. In recent years, therefore, we used the multiyear defense budget authority targets in the most recently passed budget resolution to provide our definition of current policy in defense.

We did not believe, however, that this definition was appropriate this year. The Balanced Budget Act made the deficit targets in the 1986 resolution obsolete. Moreover, after 1986 appropriation actions and the subsequent sequestration budget authority for defense came out significantly below the target established by the resolution. Without the resolution for guidance, we decided to project defense budget authority at a constant real level--the same approach taken for most nondefense discretionary programs.

We checked this approach with the Budget Committees and they concurred.

Debt Limit Increase

Question: The House measure to which the Balanced Budget Act was attached in the Senate was a joint resolution to raise the permanent statutory debt limit to $2 trillion, $78 billion, $700 million dollars. Your report, The Economic and Budget Outlook: Fiscal Years 1987-1991, estimates the FY 1986 public debt at $2 trillion, $110 billion dollars.

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o What is your best estimate of the date on which the existing statutory limit will need to be increased?

Answer: Assuming no interruption in usual Treasury borrowing practices and trust fund investment procedures, CBO expects that the debt ceiling would need to be increased once again in September 1986. If deficits or other factors cause the debt to increase faster than expected, however, a debt ceiling increase might be necessary in August in order to permit normal investment of the Social Security trust funds on September 2. A lower deficit or other developments, on the other hands, could delay the need until October.

Both CBO and the Administration currently estimate that the debt subject to limit on September 30 will be about $30 billion above the current ceiling of $2,078.7 billion assuming no disruption in Treasury debt management. The ceiling of $2,078.7 billion contained in the first concurrent budget resolution for fiscal year 1986 was based on a deficit of $172 billion in 1986. The major reason for CBO's higher estimate of debt subject to limit is the upward revision in the estimated 1986 deficit, which now appears likely to be between $200 and $210 billion.

Privatization

Question: o To what extent would you say the Administration's "Privatization" proposals result in short-term gain and long-term loss for the Federal Government?

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Answer: Rather than "short-term gains" and "long-term losses," it is probably more accurate to describe these transactions as "accelerating expected future receipts" to the present. That is, current deficits will be reduced, but future deficits will be increased. The timing of receipts is shifted but no "gain" or "loss"--in an economic sense--occurs.

The price offered will be the sum of expected future payments, discounted to account for the time value of money. The higher the expected income and the sooner that income is expected, the higher the present lump-sum value of the asset. Privatization, accomplished through the sale of real and financial assets, therefore, does entail the exchange of expected future income for its discounted present value.

If the transfer to private owners changes the expected future stream of income, government may obtain more or less than government's expected value. For example, if private financial firms are more efficient at collecting loans, government may be able to sell loans for more than government's expected value. If, however, private owners of electric power production facilities, for example, expect to be subject to more restrictive price regulation than the federal government, the sale price for such facilities may be less than the present value to government.

In some cases, government can significantly raise the sale price by reducing investor uncertainty about such matters as the past income performance of the asset, about post-privatization policy toward the activity, and about other

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policies that will affect the expected earnings of the asset offered for sale. This uncertainty should probably be addressed in any legislation authorizing privatization through sale.

Defense

Question: o Much comment has been made regarding your assumptions of no growth in the defense budget. Could you provide the Committee a list of both budget authority and outlay requirements assuming 3, 5, and 8 percent real growth?

Answer: The following table shows baseline budget projections for national defense programs (function 050) for fiscal years 1987-1991 assuming 3, 5, and 8 percent real growth in budget authority. The projections assume the 1986 mix of funding for the different defense program accounts (e.g., military personnel, operations and maintenance, procurement, and so forth).

National Defense Projections for Selected Rates of Real Growth
By fiscal year, in billions of dollars)

Real Growth Rates	1986 Base	Projections				
		1987	1988	1989	1990	1991
3 Percent						
Budget authority	286.8	309.9	333.9	360.1	388.3	419.1
Outlays	269.5	287.2	305.9	328.9	355.0	383.7
5 Percent						
Budget authority	286.8	315.9	347.0	381.5	419.3	461.4
Outlays	269.5	289.3	312.3	341.4	374.9	412.4
8 Percent						
Budget authority	286.8	324.9	367.1	415.1	469.4	531.2
Outlays	269.5	292.4	322.1	360.7	406.4	459.1

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IRS Funding and IRS Revenue Collections

General Rule-Of-Thumb

Question: o Does CBO have a general "Rule-Of-Thumb" for estimating the effect of changes in IRS funding levels on IRS revenue collections?

Answer: Yes, CBO, in consultation with the Joint Committee on Taxation (JCT), Treasury, and the Internal Revenue Service, customarily applies rules-of-thumb for particular increases in IRS funding. The size of the rule-of-thumb, however, may vary substantially depending on how the IRS spends the money. Some IRS expenditures are estimated to yield as much as $18 in revenue for every dollar spent. Specific appropriations for additional enforcement staff in the IRS Examination and Appeals budget account have been most directly tied to revenue increases. One rule-of-thumb that has been applied to an increase in IRS examiners/auditors in general is approximately $7 to $8 in revenue gain for every dollar spent.

Question: Specific Example:

The FY 1986 IRS budget is $3.5 billion after the FY 1986 sequester order. The President's FY 1987 request is $4.1 billion.

Under your sample FY 1987 sequester order, non-defense discretionary programs would be funded at a level 8.6 percent below the FY 1986 level. For IRS that would be a cut of $300 million, for an FY 1987 post-sequester funding level of $3.2 billion.

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o What is your estimate of the loss of revenue collections if IRS were funded at a level $900 million below the President's FY 1987 request?

Answer: CBO is unable at this time to estimate the revenue effect of a FY 1987 IRS budget sequester. Specific IRS information on how the service would absorb the budget cut is required.

Sequestration Of Obligated Balances

Question: o Regarding implementation of the Gramm-Rudman-Hollings sequestration order on March 1, is it your interpretation of the Act that FY 86 obligated balances made prior to enactment of Gramm-Rudman-Hollings should be included in the sequestration order? Or are obligated balances made prior to enactment exempt? (For example, the Forest Service is being asked to find $9.7 million in savings from the timber receipt payment account but those funds were already obligated to the counties before passage of G-R-H.)

Answer: In preparing our report to the Comptroller General, we generally considered all new budget authority for 1986 to be subject to sequestration, regardless of the obligation status of the accounts. One exception was the payment to the Corporation for Public Broadcasting, which was obligated and expended in October. All of our sequestration calculations were done at the budget account level. We did not believe it necessary, nor did we have time, to go below the account level

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to review the obligation status of each program, project, or activity.

Question: If in fact those obligated balances are still subject to sequestration, what guidance does the agency have in asking for reimbursement from the counties? Can they debit future county payments? Can they increase cuts in other programs within the Forest Service to recoupe the $9.7 million in foregone savings?

Answer: I believe it is up to each agency to determine how to obtain the necessary sequestration reductions for each budget account. That may involve deobligations of budgetary resources ot proportionally higher reductions in unobligated balances.

Composition Of Federal Spending

Question: Summary Table 3 of the CBO report shows the projected composition of federal spending for the Administration's budget, as reestimated by CBO. It would be useful to the Committee to have this same breakdown for actual budget levels over the past 25 years and CBO's fiscal year 1986-1991 baseline estimates. Would you please provide this information for the record?

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TABLE II-7. CBO BASELINE OUTLAY PROJECTIONS FOR MAJOR SPENDING CATEGORIES (By fiscal year)

Major Category	1985 Actual	1986 Base	Projections 1987	1988	1989	1990	1991
			In Billions of Dollars				
National Defense	252.7	269.5	284.0	296.4	310.9	326.9	343.9
Entitlements and Other Mandatory Spending	440.2	453.7	473.6	509.0	536.4	566.5	604.1
Nondefense Discretionary Spending	172.1	173.2	174.3	182.6	188.3	195.9	204.0
Net Interest	129.4	138.6	145.0	154.4	157.6	159.1	160.3
Offsetting Receipts	-48.1	-48.8	-51.5	-56.4	-58.4	-60.7	-64.4
Total Outlays	946.3	986.1	1,025.3	1,085.9	1,134.9	1,187.6	1,247.9
On-Budget Outlays	769.5	801.7	827.0	875.7	912.9	952.8	998.5
Off-Budget Outlays	176.8	184.4	198.3	210.2	221.9	234.9	249.4
			As a Percent of GNP				
National Defense	6.4	6.4	6.3	6.1	6.0	5.8	5.7
Entitlements and Other Mandatory Spending	11.2	10.8	10.5	10.5	10.3	10.1	10.0
Nondefense Discretionary Spending	4.4	4.1	3.9	3.8	3.6	3.5	3.4
Net Interest	3.3	3.3	3.2	3.2	3.0	2.8	2.7
Offsetting Receipts	-1.2	-1.2	-1.1	-1.2	-1.1	-1.1	-1.1
Total Outlays	24.0	23.5	22.8	22.4	21.8	21.1	20.6
On-Budget Outlays	19.5	19.1	18.4	18.1	17.5	17.0	16.5
Off-Budget Outlays	4.5	4.4	4.4	4.3	4.3	4.2	4.1

SOURCE: Congressional Budget Office.

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TABLE D-5. OUTLAYS FOR MAJOR SPENDING CATEGORIES, 1962-1985
(By fiscal year, in billions of dollars)

	National Defense	Entitlements and Other Mandatory Spending	Nondefense Discretionary Spending	Net Interest	Offsetting Receipts	Total Outlays
1962	52.3	31.3	23.3	6.9	-7.0	106.8
1963	53.4	33.7	24.6	7.7	-8.1	111.3
1964	54.8	35.0	28.4	8.2	-7.8	118.5
1965	50.6	35.3	31.8	8.6	-7.8	118.2
1966	58.1	38.0	37.6	9.4	-8.4	134.5
1967	71.4	46.0	40.1	10.3	-10.2	157.5
1968	81.9	52.7	43.2	11.1	-10.8	178.1
1969	82.5	59.2	40.3	12.7	-11.1	183.6
1970	81.7	67.1	44.2	14.4	-11.7	195.6
1971	78.9	81.7	49.0	14.8	-14.2	210.2
1972	79.2	95.4	54.9	15.5	-14.2	230.7
1973	76.7	111.5	58.3	17.3	-18.1	245.7
1974	79.3	125.2	64.7	21.4	-21.3	269.4
1975	86.5	157.2	83.9	23.2	-18.5	332.3
1976	89.6	183.8	91.4	26.7	-19.8	371.8
1977	97.2	199.2	104.5	29.9	-21.6	409.2
1978	104.5	219.5	122.3	35.4	-23.0	458.7
1979	116.3	237.9	132.7	42.6	-26.1	503.5
1980	134.0	280.6	154.2	52.5	-30.4	590.9
1981	157.5	323.5	167.7	68.7	-39.3	678.2
1982	185.3	359.8	152.8	85.0	-37.1	745.7
1983	209.9	401.2	153.6	89.8	-46.2	808.3
1984	227.4	397.1	161.5	111.1	-45.3	851.8
1985	252.7	440.2	172.1	129.4	-48.1	946.3

SOURCE: Congressional Budget Office.

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TABLE D-6. OUTLAYS FOR MAJOR SPENDING CATEGORIES, 1962-1985
(By fiscal year, as a percent of GNP)

	National Defense	Entitlements and Other Mandatory Spending	Nondefense Discretionary Spending	Net Interest	Offsetting Receipts	Total Outlays
1962	9.4	5.6	4.2	1.2	-1.3	19.2
1963	9.1	5.7	4.2	1.3	-1.4	18.9
1964	8.7	5.6	4.5	1.3	-1.2	18.8
1965	7.5	5.2	4.7	1.3	-1.2	17.6
1966	7.8	5.1	5.1	1.3	-1.1	18.2
1967	9.0	5.8	5.1	1.3	-1.3	19.8
1968	9.6	6.2	5.1	1.3	-1.3	20.9
1969	8.9	6.4	4.3	1.4	-1.2	19.8
1970	8.2	6.8	4.5	1.5	-1.2	19.8
1971	7.5	7.7	4.6	1.4	-1.3	19.9
1972	6.9	8.3	4.8	1.3	-1.2	20.0
1973	6.0	8.7	4.5	1.3	-1.4	19.1
1974	5.6	8.8	4.6	1.5	-1.5	)
1975	5.7	10.3	5.5	1.5	-1.2	21.8
1976	5.3	10.8	5.4	1.6	-1.2	21.9
1977	5.0	10.3	5.4	1.5	-1.1	21.1
1978	4.8	10.1	5.6	1.6	-1.1	21.1
1979	4.7	9.7	5.4	1.7	-1.1	20.5
1980	5.0	10.5	5.8	2.0	-1.1	22.2
1981	5.3	10.8	5.6	2.3	-1.3	22.7
1982	5.9	11.5	4.9	2.7	-1.2	23.7
1983	6.3	12.1	4.6	2.7	-1.4	24.3
1984	6.2	10.7	4.4	3.0	-1.2	23.1
1985	6.4	11.2	4.4	3.3	-1.2	24.0

SOURCE: Congressional Budget Office.

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President's Revenue Rise

Question: According to your re-estimates of the President's budget, revenues rise from 18.6 percent of GNP in 1986 to 19.2 percent by 1988. From an economic standpoint, isn't it true that under the President's budget a larger share of economic activity will be collected in revenues in 1988 than in 1986?

Answer: CBO estimates that revenues under the President's budget program will rise from 18.6 percent of GNP to 19.2 percent of GNP between 1986 and 1988. Of the 0.6 percent rise, only 0.5 percent is attributable mostly to real income growth pushing taxpayers into higher tax brackets and the increase in employer and employee Social Security contribution rates already scheduled to go into effect in January 1988. Only 0.1 percent of the increase is attributable to new revenue initiatives proposed in the budget program.

Question: Follow-up:

By reducing the deficit, won't this increase in revenues do more good for the economy than any possible harm it could cause?

Answer: Reduction in the deficit from the present high level through a range of reasonable means should benefit the economy, most directly by reducing pressure on credit markets. It should be emphasized that the projected increase between 1986 and 1988 in the revenue share of GNP results,

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for the most part, from current tax law, not from proposed increases in taxes.

Deficits without Social Security

Question: According to your estimates, if we followed all of the policies in the President's budget we would be $16 billion over the Gramm-Rudman deficit target in FY 87. Moreover, instead of a balanced budget by 1991, as required by law, we see that the President is really proposing a $40 billion deficit. Now the President has argued time and again that Social Security does not affect the deficit. Your numbers show, however, Social Security surpluses of $15 billion in FY 87 rising to $62 billion by FY 91. Isn't it true then that the President's proposed deficit for the non-Social Security budget is $175 billion for FY 87, not the $144 billion Gramm-Rudman target? By the same token, isn't the President proposing a $100 billion deficit in 1991 not a balanced budget for all non-Social Security activities. If we are worried about government deficits in all non-Social Security activities, don't we still have a serious problem in 1991?

Answer: The total outlays and revenues of the federal government include both on-and off-budget activities. On-and off-budget activities, however, must be added together to determine the total federal deficit that must be borrowed. Total revenues and outlays--whether on-or off-budget--are relevant in analyzing the credit market impacts and other

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economic effects of federal government activity. The Balanced Budget Act, while requiring that the revenues and outlays of the Social Security trust funds be treated as off-budget, specifically provides that the total deficit, including Social Security, is used in calculating the excess deficit amount.

CBO's estimate of the President's proposals shows a total deficit of $40 billion in 1991. This comprises an off-budget surplus of about $62 billion and an on-budget deficit of $102 billion. Deficit reductions of $40 billion--not $102 billion--would be required to comply with the Balanced Budget Act.

Trillion-dollar Budget

Question: According to your re-estimates for FY 87, isn't it true that the President is proposing the first trillion dollar spending budget in the nation's history?

Answer: Yes, according to our analysis, budget outlays in fiscal year 1987 would exceed $1 trillion if the President's budgetary proposals were approved. Our specific estimate is $1,010 billion, which is $16 billion higher than the Administration's estimate of $994 billion. Most of the difference results from our higher estimate of outlays that would result from the President's defense proposals.

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Entitlement vs. Defense Trade-off

Question: OMB and the President have constantly expressed concern over the last five years about the growth in entitlement programs. You estimate that the President's budget would cut $115 billion from these programs over the next five years. Yet you also estimate that the President's proposed defense increases over the next five years amount to $120 billion. Isn't it true then that the combination of defense increases and entitlement cuts in the President's budget would actually raise cumulative deficits over the next five years?

Answer: That would be true if only defense and entitlement program proposals are considered. But the President's budget also includes other proposals that would raise revenues by $35 billion over the next five years, and reduce outlays for nondefense discretionary programs by $124 billion. Offsetting receipts also would be increased by $45 billion during 1987-1991, and net interest outlays reduced by $24 billion from CBO's projected baseline levels. The net effect of all these actions would be to reduce projected deficits by $224 billion, as shown in Table 4 of my prepared statement and in Summary Table 4 of the CBO Analysis of the President's Budgetary Proposals for Fiscal Year 1987.

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New Requirement for Scoring Off-Budget Activities and Credit

Question: Last year our bean counters--yours and mine--were faced with some difficulties, especially in the agricultural credit area, in keeping track of the scorekeeping effects of credit programs on FFB transactions.

What steps are you taking to integrate the material our staff provides you so that we can continue to meet our reporting requirements under the Budget Act?

Answer: Shortly after the enactment of the Balanced Budget Act of 1985, CBO began the process of integrating both off-budget and credit activity fully into our automated budget information systems. After discussing possible system changes with both the Budget and Appropriations Committee staff, we began the process of integrating our systems, which is now well underway. When completed, the data bases will be fully integrated. We will have the option of running reports that show both spending and credit activity in the same report or of producing separate spending and credit reports. We will be able to extract both spending and credit data automatically from the Appropriations Committees' systems into CBO's systems.

We have also proposed several changes in the budget structure to OMB for the fiscal year 1988 budget. Specifically we have suggested better integration of credit and spending in the budget schedules, and changes that would make the FFB transactions easier to understand.

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Question: In past years, for various reasons, the Appropriation process focused more on budget authority than on budget outlays. That will change this year because the increased emphasis Gramm-Rudman-Hollings has put on outlays. This will obviously make the estimation of outlays much more important than it was in previous years.

Last year, the Interior Subcommittee took a very close look at CBO's previous year's outlay estimates and compared them to the actuals. Outlays are hard to estimate, however, we found the average difference between the original outlay estimate and actual outlays was $421 million. Since the overall spend out rate of the Interior bill is around 65 percent, we would need to cut nearly $700 in budget authority to come up with $421 in outlays.

With this increased emphasis on estimate outlays, how will CBO change its scoring procedures to improve the accuracy?

Answer: Estimating errors in the scoring of outlays for appropriation bills do not generally necessitate reductions in budget authority in order to stay within budget resolution targets. The outlay estimates used to score appropriation bills are based on the same spending rates as are assumed in the relevant budget resolution. As a result, if outlays scored for an appropriation bill are too high, the resolution targets are correspondingly too high. Thus, the use of a consistent estimating methodology throughout the budget resolution and

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appropriation process largely mitigates the effects of estimating errors.

Nevertheless, CBO is continually reviewing its outlay estimates in order to improve their accuracy. We carefully analyze the Monthly Treasury Statements to monitor agency spending trends; we regularly update our statistical projections to reflect the most recent data; and we communicate frequently with agencies as to program developments. When each fiscal year is over, we analyze the estimates used in budget resolutions to determine the reasons for misestimates. Though CBO outlay estimates for Interior Subcommittee programs were clearly high for a number of years, the 1985 estimates based on our February 1985 analyses were quite close to the actual outlays.

Question: During the legislative course of an appropriation bill, the CBO makes outlay estimates associated with new budget authority at various times. The outlay rate of that budget authority varies by program and even by year in some cases.

How often does CBO update outlay rates with actual rates used at the Department?

Answer: CBO monitors agency spending on a monthly basis. Because of the need for stability and consistency in the spending estimates used by the Congress, we are not permitted to frequently update our estimates on the basis of new information. The Appropriations Committee, in particular,

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would find it very difficult to make its spending decisions within budget resolution targets if CBO were to frequently change its outlay estimates, both up and down, during consideration of appropriation bills.

CBO prepares a general update of all its spending estimates prior to preparation of a preliminary baseline (usually in January), with further revisions after we receive and review the President's budget. These updates take into consideration actual spending levels over the preceding years, statistical projections of agency spending, and each agency's own estimates. With enactment of the Balanced Budget and Emergency Deficit Control Act of 1985, a similar comprehensive update will have to be performed during each summer, in preparation for the required sequestration report in August. Even after such updates, however, legislation is generally scored consistent with the assumptions that underly whatever budget resolution is in effect at the time.

Question: An example of a program that outlays at a different rate every year is SPRO construction. Over the life of this program the outlay rate has varied from one percent in fiscal year 1976 to 100 percent in fiscal year 1982.

How does CBO alter its outlay estimates in a situation like this?

Answer: CBO's objective is to accurately project spending for each account by reflecting in its estimate anticipated program activity. Outlay rates are only one of a number of tools we

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use to accomplish this, and they are modified each year to reflect the actual circumstances surrounding a program. For example, baseline outlay rates for SPRO construction have varied from 35 percent to 55 percent over the past four years.

Question: CBO estimates outlays at a level down to each appropriation account. If an appropriation bill were proposing to change its account structure in a particular year, would estimates be made on that proposal or are estimates made on the currently enacted account structure?

Answer: Outlay estimates for appropriation bills are made on the basis of the account structure used in each, including new accounts or a restructuring of previously existing accounts.

Question: Is it accurate to state that the nondefense baseline for fiscal year 1987 is essentially the fiscal year 1986 funding levels as enacted with future increases to keep pace with inflation?

Answer: For discretionary appropriations, the fiscal year 1986 spending level assumed in the CBO baseline is the level enacted by the Congress through December 1985 and reduced according to the provisions of the Balanced Budget Act. The 1987-1991 baseline projections for these accounts generally assume that the postsequestration program level is adjusted to keep pace with inflation. In a few instances, the baseline budget authority is the estimated amount required to achieve

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specified program objectives. Where the 1986 appropriation reflects the availability of unobligated balances, the 1986 projection base is assumed to be the 1986 program level--that is, 1986 budget authority plus activity financed by available balances. Where 1986 funds have been deferred until 1987, the 1987 baseline budget authority is reduced to reflect the availability of the deferred funds.

Question: On February 5, 1986, the President proposed to defer millions of dollars of new budget authority included in the fiscal year 1986 Continuing Resolution.

Since this is the proposed deferral of fiscal year 1986 appropriations, why are adjustments made to the fiscal year 1987 baseline?

Answer: Deferrals of 1986 authority that have been implemented by the President are reflected in the CBO baseline in two ways:

(a) If the deferral has the effect of reducing 1986 outlays or changing outlays in subsequent years, the baseline reflects such outlay impacts.

(b) If the deferral has the effect of making available additional budgetary resources to fund the 1987 program, less 1987 budget authority would be needed to support the baseline level of program activity. Therefore, baseline budget authority in 1987 is reduced so that the budget authority plus

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the deferred authority equals the baseline program level.

For example, consider community development block grants (CDBG). The 1986 budget authority is $3.0 billion; therefore, the 1987 baseline program level is about $3.1 billion. However, the $500 million deferral makes available for 1987 $500 million in unobligated balances. Therefore, the 1987 baseline program level of $3.1 billion is assumed to be financed by an appropriation of $2.6 billion plus the deferred 1986 authority.

Such budget authority adjustments for the 1987 baseline affect 14 accounts and total $1.6 billion. If no deferrals were reflected in the baseline in any way, total outlays would be $0.2 billion higher in 1986 and $0.4 billion higher in 1987.

Appropriations for 1986 also reflect the use of unobligated balances to offset budget authority needs in a number of accounts--including numerous Department of Energy programs, the National Science Foundation, the Small Business Administration, and the Judiciary. In such cases, CBO uses the total 1986 program level--not just the budget authority--as the base for projecting baseline budget authority for 1987 and beyond.

Question: Included in the President's deferral package was a redeferral of construction funds for the Strategic Petroleum Reserve. Yesterday, the General Accounting Office concluded

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that part of the deferral (156 million, 800 thousand) was not authorized under the Impoundment Control Act.

Because of this action, will CBO change the FY87 baseline with respect to SPR construction or will you wait until the Department of Energy has made a final decision on the next course of action?

Answer: CBO has provided the Budget Committee with the data necessary to adjust the baseline so as to assume the overturn of the SPR construction deferral. The budget resolution reported in the Senate has incorporated the data and assumes that the deferral does not remain in effect.

Question: The baseline estimates both budget authority and budget outlays for the coming fiscal year. This is the basis from which the respective Budget Committees formulate their Budget Resolution. In most years, however, there is a long period from the time the baseline is compiled and completion of the Budget Resolution.

After the baseline is completed, does CBO continue to update outlay estimates with the Budget Committees or are those estimates final with submission of the baseline?

With the increased emphasis Gramm-Rudman-Hollings has put on estimating outlays, will this procedure change?

Answer: At the request of the Budget Committees, CBO generally does not revise its baseline during the process of

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formulating and enacting the budget resolution. This is to avoid the confusion of having multiple baselines, or perhaps having different baselines in the House or Senate. On occasion, if a very long time has passed since the markup baseline was developed, or if there have been significant developments affecting a major program, CBO may update the baseline if requested by both the House and Senate Budget Committees. While CBO may update the baseline as part of its summer report to the Budget Committees, any such update would not be used for scorekeeping unless the updated estimates were incorporated in a budget resolution. The Gramm-Rudman-Hollings "snapshot" in August will reflect the most current estimates at that time, which may differ in some cases from estimates underlying the February baseline.

Question: The Interior Subcommittee received a recap of fiscal year 1986 outlays prior and other actions taken by the Subcommittee on January 28, 1986. It reflected that prior year outlays for fiscal year 1986 were 3 billion, 904 million. The recently released baseline indicates that prior year outlays for fiscal year 1986 now total 3 billion, 397 million. This is a decrease of 507 million dollars.

Can you explain decrease?

Answer: Changes in estimates of prior year outlays are not, by themselves, particularly meaningful, because the allocation between current and prior outlays is somewhat arbitrary. It is

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more meaningful to discuss changes in the CBO estimate of total outlays.

CBO's February baseline estimate of total outlays for the Interior appropriation bill was about $549 million below the previous scorekeeping estimate. Most of the change is the result of legislation (the Balanced Budget and Emergency Deficit Control Act of 1985) and Administration deferrals. The former had the effect of reducing outlays by about $225 million, while deferrals (for the fossil energy research and development, naval petroleum and oil shale reserves, and strategic petroleum reserve accounts) have reduced estimated outlays by $108 million. The major changes in the outlay estimates are summarized below:

Account	Change in Outlay Estimate (in millions of dollars)	Reason
LEGISLATIVE ACTION:		
Various	-225	Sequestration pursuant to the Balanced Budget Act
ADMINISTRATIVE ACTIONS:		
Fossil energy research and development	-20	Deferral
Naval petroleum and oil shale reserves	-9	Deferral
Strategic petroleum reserve	-79	Deferral
Subtotal-Deferrals	-108	
REESTIMATES:		
Strategic petroleum reserve-facilities	-65	Slower spending than anticipated

(Continued on next page)

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Account	Change in Outlay Estimate (in millions of dollars)	Reason
LEGISLATIVE ACTION:		
Strategic petroleum reserve-oil acquisition	-60	Lower oil prices, plus delay in replacing $29 million in oil used in test sale
Energy security reserve	-48	Delays in the Union oil shale project
All other	-43	Miscellaneous reestimates
Total Outlay Change	-549	

Question: In your statement, you indicate that the Administration has proposed over $115 billion in reductions in entitlement programs. These cuts are similar to last years proposals that were rejected by Congress. This is only one example of the same proposal being resubmitted to Congress after Congress has essentially rejected it in the previous year. Another example is the distribution of net rather than gross revenues owed to states from mineral leasing.

How does CBO incorporate the Congressional rejection of these proposals into the analysis of the Administation's budget?

Answer: CBO analyzes the President's budget assuming, for the purpose of the analyses, that the Administration's policies will be enacted in their entirety by the Congress. We make no predictions as to which proposals will be enacted.

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Question: Today, the Appropriations Committee, in accordance with section 301(d) of the Congressional Budget Act, is providing the required views and estimates on the fiscal year 1987 budget. Included in this estimate are the high and low estimates of budget authority each subcommittee estimates will be required in fiscal year 1987.

Understanding the restraints since involved because outlay estimates have not been included in all cases, please provide for the record an estimate of the sequestration required under the high and low estimates.

Also, provide the sequestration required if the CBO baseline were adopted intact.

Answer: If the CBO baseline were adopted intact, the 1987 deficit would be $181 billion, as shown in our annual report to the Budget Committees (The Economic and Budget Outlook: Fiscal Years 1987-1991). This would exceed the Balanced Budget Act maximum deficit for 1987 by $37 billion. To reduce the deficit to $144 billion, the required sequestration of budgetary resources would amount to 10.1 percent for defense programs and 14.2 percent for nondefense programs. The effect of the defense sequestration would be to lower 1987 new budget authority for function 050 to $270 billion and outlays to $266 billion, essentially the same results as discussed in Chapter III of the CBO annual report. The sequestration results for nondefense programs also would be similar to those discussed in Chapter III.

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It is not possible to provide an estimate of the sequestration that would be required under the Committee's high and low estimates for the 1987 budget because we do not have sufficient detail on the Committee's budget authority estimates to develop the corresponding outlay estimates. Since both the high and low estimates for total appropriations exceed the CBO baseline projection of budget authority, however, the likely result would be to raise the deficit above the CBO baseline estimate of $181 billion. This, in turn, would require higher across-the-board sequestration percentage reductions to achieve the maximum $144 billion deficit for 1987.

These sequestration calculations are very sensitive to changes in the economic outlook or in other factors affecting budget estimates as well as to legislative and appropriation actions. Thus, our calculations in August are likely to be quite different than those presented here or in Chapter III of our annual report to the Budget Committees. Furthermore, the August CBO/OMB sequestration report wil use the average of CBO and OMB estimates of key amounts instead of relying solely on CBO estimates used here for illustrative purposes.

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QUESTIONS SUBMITTED BY SENATOR WEICKER

State Unemployment Insurance and Employment Service Operations

Question: There are at least two accounts appropriated by the Labor-HHS-Education Subcommittee which have offsetting collections from trust funds. These appropriations have been scored against the Subcommittee's 302(b) allocation.

In the case of transfers from the unemployment trust fund for employment services purposes last year, the Subcommittee added $37 million to the President's request. This amount was directly offset as a result of the Subcommittee's action by trust fund transfers.

-- Can you explain why this is the case?

-- Would it not be more appropriate for transfers from available trust fund balances to show no effect upon 302(b) allocation levels?

Answer: Employment Service Operations is financed with funds in the unemployment trust fund limited to amounts specified in annual appropriation legislation. Increases to the program level are shown as increases to outlays from the unemployment trust fund.

Allocations to committees under Section 302 of the 1974 budget act are based primarily on the source of Congressional

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control over these programs through legislative action. In the case of transfers from the unemployment trust fund for employment service purposes the appropriation process establishes the program levels.

The allocation of amounts in the budget resolution includes outlays from unemployment trust fund for employment services purposes allocated to the Appropriation Committee. Subsequent allocations by the Committee to the Subcommittee pursuant to section 302(b) of the budget act would accommodate the employment service program at some level. Therefore, when the appropriation bill includes a prescribed level for the program the estimate of outlays that will occur from the unemployment trust fund for the program are shown as part of the subcommittee's total legislative action which can be compared to the 302(b) allocation level.

These transfers from trust funds have been treated as non-discretionary programs by mutual agreement between the State Budget and Appropriations Committees, and were not included in the discretionary portion of the allocation under section 302(b).

Current Services and Sequestration

Question: I understand CBO calculated fiscal year 1987 current services on post-sequester figures rather than on 1986 enacted figures.

— Can you estimate how much more the deficit would

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be for FY 1987 if the 1986 sequestration had not been taken into account?

If Congress does not choose to meet the mandated 1987 deficit target solely by spending cuts, but approves a package which includes a tax increase, would CBO be forced to change its economic assumptions.

-- If so, how?

Answer: Our baseline deficit projection for 1987 would be $18 billion higher if the 1986 sequestration had not been taken into account.

Our economic forecast for 1987 assumes that the $144 billion deficit target will be attained. If this is done by increasing taxes as well as by cutting outlays, it would not change our forecast.

Questions Submitted by Senator Domenici

Reestimates of President's Defense Outlays

Question: Are CBO's reestimates due to the recently experienced increase in the rate of defense outlays, or are the differences entirely the result of the President's request for an increase and the programmatic mix of that request? In other words, are the reestimates related to methodological or programmatic differences?

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Background

CBO's reestimate of the President's defense outlays are $12.7 billion in FY 1987, going to $32.9 billion by FY 1991. During the last six months, the rate of defense outlays has increased over past experience when there was a shortfall in outlays. It would be helpful to determine if CBO's defense outlays estimates are based on recent experience (methodological) or on the mix of the President's budget request (programmatic).

Answer: Actually, Summary Table 2 does not display CBO's reestimates of the President's budget. What this table does is to show how the President's budget compares to CBO's baseline projections for 1987-1991. For example, the numbers in the row labeled national defense represent increases in outlays from the CBO baseline projections for defense programs.

These numbers take into account the specific defense program mix proposed in the President's budget. They also are based on CBO's spending rate assumptions for each defense appropriation account, which do reflect recent experience. Our estimates of outlays that would result from the President's defense budget proposals are higher than the Administration's. Our defense outlay reestimates are discussed in Chapter III of our report.

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SUMMARY TABLE 2. THE ADMINISTRATION'S DEFICIT REDUCTION PROGRAM AS ESTIMATED BY CBO (By fiscal year, in billions of dollars) a/

Major Program	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
CBO Baseline Deficit	181.3	164.9	143.6	120.1	104.3	
Proposed Changes						
Revenues	-5.9	-7.1	-8.6	-7.2	-6.5	-35.4
Outlays						
National defense	12.7	20.2	25.1	29.6	32.9	120.6
Entitlements and other mandatory spending	-15.2	-20.3	-23.2	-26.7	-30.1	-115.5
Nondefense discretionary spending	-8.7	-16.0	-26.3	-32.7	-40.6	-124.3
Offsetting receipts	-4.1	-7.9	-14.8	-9.1	-9.2	-45.2
Net interest	-0.2	-1.7	-4.4	-7.4	-10.7	-24.4
Subtotal, outlays	-15.6	-25.6	-43.5	-46.3	-57.7	-188.7
Total Policy Changes	-21.6	-32.7	-52.1	-53.6	-64.2	-224.1
President's Budget as Estimated by CBO	159.7	132.3	91.4	66.6	40.1	
President's Budget	143.6	93.6	67.5	35.8	-1.3 b/	
CBO Reestimates	16.1	38.7	23.9	30.8	41.4	150.9

SOURCE: Congressional Budget Office; Office of Management and Budget.

a. Includes Social Security revenues and outlays, which are off-budget.

b. Surplus.

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Questions Submitted by Senator Leahy

Question: Last year we started a new process here in the Senate of scoring bills for outlays, not just budget authority.

Because of tight outlay ceilings, last year we had to make major cuts in such programs as Revenue Sharing, Veterans Medical Care, Space and Science, and Enviromental Protection.

When we were putting that bill together, we argued that CBO was assuming a much higher outlay rate for Superfund than could really occur.

Now we have received your new baseline estimate. It shows that the outlay estimates used last year were seven times too large.

Thus, we cut about $200 million for these programs that we did not need to cut to comply with our budget targets.

Why would you not adjust these totals last year?

Do you have a written set of scorekeeping rules?

If so, please provide me a copy of such rules or guidelines, in whatever form they are in either written, formal or informal.

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If you do not have such a written set of rules, why not?

Answer: The CBO outlay estimate for Superfund used in scoring the 1985 appropriations was $380 million--compared to actual outlays of $360 million. For 1986, CBO estimated outlays of $627 million when scoring the appropriation bill--assuming enactment of the necessary tax legislation. This was consistent with the outlay estimates assumed in the budget resolution; the Senate Budget Committee's allocation of the resolution included $777 million in Superfund outlays. Thus, the outlay estimate for scoring the Superfund appropriations was below the budget targets for that program.

With the long delay in enacting the Superfund tax measure, as well as the sequestration of $39 million in budget authority, our most recent estimate is $396 million in 1986 outlays for the Superfund. However, CBO does not revise its outlay estimates during the appropriation process, because long established Congressional scorekeeping procedures require CBO to score appropriation bills using assumptions and methodologies consistent with the budget resolution (if enacted) or the baseline. Although new information constantly becomes available regarding various programs, we estimate outlays on the same basis used for the resolution targets. If CBO outlay estimates were continually revised--either up or down--committees would have no way of judging whether proposed actions would fall within budget resolution targets.

CBO does not have a written set of scorekeeping rules. Under Section 311 of the Congressional Budget and Impound-

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ment Control Act of 1974, the Budget Committees are charged with responsibility for scorekeeping procedures. The Budget Committees of the Senate and House employ different scorekeeping rules consistent with their different structures for jurisdictional allocations, enforcement mechanisms and parliamentary procedures. The scorekeeping rules used in the Senate have not been written. The guides used derive from the Congressional Budget Act, individual Senate rules and conventions, annual Congressional budget resolutions, and decisions and precedents over the years since implementation of the Congressional budget process.

SUBCOMMITTEE RECESS

Chairman HATFIELD. We will have concluded this first session with Dr. Penner, and I believe there are no other questions.

The committee will stand in recess.

[Whereupon, at 2:33 p.m., Wednesday, February 26, the committee was recessed, to reconvene at the call of the Chair.]

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